Moved by Councillor

That Rule 9.3 of the Procedure By-law be suspended in order that the following item, which was received too late to be placed on the agenda, may also be considered by Committee at this time.

Report - Alternate Service Delivery Committee - March 12, 2007

Item No. 2 Glacial Sand and Gravel Special Operating Agency – 2007 Selection Report File GL-5.6.1

COMMITTEE RECOMMENDATION:

On March 12, 2007, the Alternate Service Delivery Committee concurred in the administrative recommendation and submits the following to Council:

1. That the 2007 Selection Report (Summary of the Business Plan) for Glacial Sand and Gravel Special Operating Agency and the "Two-Year Financial History and Projections to December 31, 2007", as outlined in Appendix A to the report from the Director of Public Works dated December 5, 2006, be approved as the 2007 budget for Glacial Sand and Gravel.

2. 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 - March 14, 2007

Report - Alternate Service Delivery Committee - March 12, 2007

DECISION MAKING HISTORY:

COMMITTEE RECOMMENDATION:

On March 12, 2007, the Alternate Service Delivery Committee concurred in the administrative recommendation and submitted the matter to the Executive Policy Committee and Council.

Further, on March 12, 2007, the Alternate Service Delivery Committee directed the Administration to submit a report, prior to the summer 2007 Prorogue Period, outlining a plan to finalize operations and dissolve the Special Operating Agency.

Further on March 12, 2007, the Alternate Service Delivery Committee received a PowerPoint Presentation titled “Glacial Sand and Gravel SOA 2007 Selection Report (Business Plan)” from Mr. P. Paul, Chief Operating Officer, Glacial Sand and Gravel Special Operating Agency and Mr. W. Larkin, Director of Public Works.

RE: 2007 Selection Report (Summary of the 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: December 5, 2006

RECOMMENDATIONS:

1. That the 2007 Selection Report (summary of the Business Plan) for the Glacial Sand and Gravel Special Operating Agency (GSG) be approved and that the "2 Year Financial History and Projections to December 31, 2007", attached as Appendix A, be approved as the 2007 budget for GSG.

Report Summary

Key Issues:

- Glacial and the Department of Public Works completed Expressions of Interest and Proposal (EOIP) process in 2006 that recommended sale of Pine Ridge Pit asset and equipment.
- Alternate Service Delivery (ASD) Committee, during its meeting on September 18, 2006, asked the CAO to provide options for using the proceeds of the sale of Pine Ridge Pit asset.
- In anticipation of a new strategic direction being implemented before year end, Glacial operated essentially under status quo conditions for 2006 with the goal of providing the highest levels of customer satisfaction possible while minimizing operating losses.
- Glacial will pursue similar goals for 2007 while continuing to honor the royalty agreement in the Transcona Pit and make good use of Transcona property.
- All the permanent employees of Glacial will be redeployed by the end of 2007.

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

( ) No
(X) Yes
Comment(s): After the expiry of Transcona Pit royalty agreement and the redeployment of the staff, the need for retaining the SOA could be reviewed by the ASD Committee and Council.

Regulatory Implications

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

Environmental Implications

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

Human Resources Implications

( ) No
(X) Yes
Comment(s): All permanent employees of Glacial will be redeployed by the end of 2007.

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. The agency has three properties namely Pine Ridge Pit, Transcona Pit and Gunton property. Operating as a SOA, and adhering to business-like principles, agency was intended to produce the best return for the asset to taxpayers. Glacial completed its strategic business review in 2005 that resulted in completion of Expression of Interest and Proposal (EOIP) process in 2006 for the disposition of the Pine Ridge Pit.

DISCUSSION:

Critical Success Factors
Several critical success factors faced Glacial going into 2006. An indication of how the Agency performed in light of these factors is provided below:

1. Replacing the substantial annual sales volumes realized under the former business model
    - Glacial was able to sell value added products like asphalt fines, stone, gravel, VMA sand along with bank run material from the Pine Ridge Pit and the Transcona Pit during 2006.
2. Minimizing cost of sales through prudent management of staff and equipment
    - Costs were kept to a minimum by not hiring new staff, reducing overtime, conducting minimal repairs to equipment (due to reduced operations), not renting additional equipment for operations and not producing additional by-products or low value inventory.
3. Maintaining the pace of Expression of Interest and Proposal process to seek direction from Council before next construction season.

Selected Operating and Administrative Accomplishments in 2006
The following is a list of accomplishments achieved by Glacial in 2006.

1. Increased Efficiency and Lower Cost of Operation – Glacial was successful in keeping the overall cost of its operation low. Less staff with lower overtime, lower cost of operation with minimal overheads and production of only value added products kept the costs low. No products were produced that resulted in low value inventory as by-product. With the reduction of operating expenses year

over year, Glacial's production efficiency also increased substantially. Some of the factors are listed below:

- a focus on fewer product offerings to reduce set-up time and production inefficiencies;
- cross training staff to maximize employee flexibility and deployment;
- collaborative staff/management approaches to production planning and problem solving; and
- initiatives to create better focused and motivated staff such as cross training, job rotation, formal work planning and feedback, etc.

2. Customer Satisfaction - Glacial staff is highly customer focused. Despite the uncertainty about the future of Pine Ridge Pit asset and fewer product offerings, staff provided a high level of customer service and always responded to their needs in a timely manner. Also, staff worked in shifts to provide longer hours of operation to customers without adding additional cost to Glacial's operation.

3. 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 three years. Glacial operates in an extremely hazardous environment containing substantial dust, noise, heavy equipment, truck traffic, potentially dangerous processing equipment and other factors.

4. 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 2006

Glacial undertook and completed the Expressions of Interest and Proposal process for the disposition of Pine Ridge Pit asset and equipment. The results of EOIP process along with recommendations were submitted to ASD Committee (18th September, 2006), Standing Policy Committee on Property and Development (19th September, 2006), Executive Policy Committee (21st September, 2006) and finally to Council on 28th September, 2006. ASD Committee directed Administration to proceed with the sale of the Pine Ridge property and its equipment as follows:

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.

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

Further, 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.

It is worth noting that Glacial was able to achieve its operating and financial goals for the year despite widespread uncertainty about its future. Glacial staff commitment and resolve remained strong in the face of these uncertain factors. Lower operating costs allowed the Agency to exceed its 2006 financial objectives.

2006 Financial Highlights

Glacial expects to complete this year with a profit of approximately $414,000. The following reflect Glacial's unaudited financial results for fiscal 2006:

- Overall revenue for Glacial increased marginally from $2.29M in 2005 to $2.42M in 2006. The extension of the Transcona royalty agreement helped Glacial in maintaining sales;
- Salaries in 2006 were $392,000 compared to $598,000 in 2005; and
- Operating expenses on materials, parts, supplies and services were $994,000 compared to $1,559,000 in 2005.

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

Performance Measurement

2006 was the Sixth year of operation for Glacial Sand and Gravel as an SOA. The Agency continued to establish performance measurements where it made sense in light of 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 Nov. 30, 2006)
Financial	• Budgeted net income as per Business Plan projections	• To meet and/or exceed	• Exceeded
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

GOAL	PERFORMANCE MEASUREMENT	MEASURE OF SUCCESSS/TARGET	STATUS (as of Nov. 30, 2006)
	• Meet and/or exceed productivity rates	• Initial benchmarking required	• Benchmarks to be developed
Customer Satisfaction	• Obtain customer satisfaction feedback	• Feedback	• 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

Strategic Options

Options for Net Proceeds of Sale
At this time, Glacial is in the process of finalizing contract details regarding the sale of the Pine Ridge Pit assets including equipment.

There are four potential options for the transfer of net proceeds generated by sale of Glacial's Pine Ridge Pit assets including equipment. These are as follows:

1. Create an interest-bearing reserve dedicated to funding infrastructure projects and transfer the retained earnings to the reserve. Consideration would need to be given to what types of projects qualify and/or who approves expenditures for those projects, whether some of a portion of the capital in the fund can be spent or only the interest.
2. Transfer the net proceeds to the Land Operating Reserve (a portion of the Council approved rules relating to this reserve states that: *"this reserve is maintained by proceeds from the sale of City-owned properties and interest earned. Disbursements are limited to the cost of acquisition, sale and improvement of disposable City properties"*).
3. Transfer the net proceeds to the General Revenue Fund to be used to offset the 2007/08 budget shortfalls.
4. Earmark the net proceeds for investment in a legacy project as defined by Council.

Operations
Glacial still has a royalty agreement with a customer at the Transcona Pit that expires in July 2007. Until then, Glacial will continue to staff the scale at Transcona Pit. There is a potential that royalty agreement could be renewed for few more months beyond July, 2007. The Gunton property is still dormant and is expected to remain like that for few more years.

All permanent Glacial staff will be redeployed within the Public Works Department. Considering the minimal size of the operation, it is anticipated that there will be no need for the SOA after 2007. The Agency could be dissolved by Council and the remaining properties transferred to the Public Works Department.

Financial Projections for 2007

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, 2007.

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 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.

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) 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.
c) The Council approval of GSG's Selection Report.
d) Glacial will sell 100% of its current inventory, to the buyer, at market prices/negotiated price with the buyer of Pine ridge property in 2007. For accounting purposes the book value of inventory has been taken where as per sale agreement the actual value of inventory will be negotiated with the prospective buyer of the pit before the end of the year;
e) Glacial's royalty agreement for the Transcona Pit will expire in July 2007;
f) Glacial will not supply limestone products ;

g) Sale of the Pine Ridge property and equipment are completed as per the agreed terms;
h) Debt for property and equipment purchases is obtained from either Fleet Management Agency or the City of Winnipeg and it will be paid off after the completion of sale of Pine Ridge property;
i) All the permanent staff will be redeployed in 2007. A provision of one year's salary of all the permanent employees has been made and any earlier redeployment will free extra funds;

j) SOA expects to operate with the following staff levels in 2007:

• WAPSO Exempt		0.2
• CUPE	clerk	0.2
	Foreman	0.2
	Weighmaster	0.8

3 year Financial history and projections to December 31, 2007 has been included in Appendix A

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 five members, four City of Winnipeg employees and one CUPE Local 500 executive representative. Current Advisory Board Members are as follows:

Bill Larkin P. Eng.	Director of Public Works
Preetipal Paul, P. Eng	Chief Operating Officer
Bruce McPhail P. Eng	CAO Representative
Jeff Laurent	Employee Representative
Jim Husiak, C.A.	CUPE Local 500 Representative

Appendix A: Financial History and Projections

Glacial Sand and Gravel – Special Operating Agency

2 Year Financial History

Projections to the end of December 2006 and calendar year 2007

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

STATEMENT OF FINANCIAL POSITION

As at December 31
(in thousands of dollars)

	Actual 2004	Actual 2005	Forecast 2006	Forecast 2007
ASSETS				
Current				
Cash (Note 3)	$ 39	$ 85	$ -	$ -
Accounts receivable (Note 4)	455	537	-	-
Due from City of Winnipeg - General Revenue Fund (Note 3)	-	-	-	9,131
Income taxes recoverable (Note 5)	86	-	-	-
Inventory	549	526	308	-
	1,129	1,148	308	9,131
Capital assets (Note 6)	4,516	4,378	4,087	-
	$ 5,645	$ 5,526	$ 4,395	$ 9,131
LIABILITIES				
Current				
Due to City of Winnipeg - General Revenue Fund (Note 3)	$ 1,157	$ 2,095	$ 1,240	$ -
Accounts payable and accrued liabilities	748	313	143	-
Deferred revenue	255	442	-	-
Vacation payable	67	61	61	-
Current portion of long-term debt (Note 7)	3,997	3,878	3,883	3,800
	6,224	6,789	5,327	3,800
Retirement allowance	84	45	45	-
Long-term debt (Note 7)	177	99	16	-
	6,485	6,933	5,388	3,800
CAPITAL				
Retained Earnings (Deficit)	(840)	(1,407)	(993)	5,331
	$ 5,645	$ 5,526	$ 4,395	$ 9,131

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)*	Actual 2004	Actual 2005	Forecast 2006	Forecast 2007
REVENUES				
Sales of goods and services	$ 2,352	$ 2,297	$ 2,423	$ 435
EXPENSES				
Administrative services	42	117	242	3
Amortization and depletion	184	201	291	-
Interest on long-term debt	286	303	90	-
Material, parts and supplies	580	445	308	309
Salaries and benefits	670	598	392	342
Services	1,295	1,114	686	45
	3,057	2,778	2,009	699
Net gain (loss) before income taxes	(705)	(481)	414	(264)
Income tax expense (Note 5)	-	(86)	-	-
Extraordinary event - gain on disposal of Pine Ridge Pit and assets				6,913
Net gain (loss) for the year	(705)	(567)	414	6,649
DEFICIT, BEGINNING OF YEAR	(135)	(840)	(1,407)	(993)
	(840)	(1,407)	(993)	5,656
Dividend paid to General Revenue Fund	-	-	-	(325)
RETAINED EARNINGS (DEFICIT), END OF YEAR	$ (840)	$ (1,407)	$ (993)	$ 5,331

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

STATEMENT OF CASH FLOWS

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

NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:	Actual 2004	Actual 2005	Forecast 2006	Forecast 2007
OPERATING				
Net gain (loss) for the year	$ (705)	$ (567)	$ 414	$ 6,649
Non-cash items related to operations				
Amortization and depletion	184	201	291	-
Retirement allowance	-	(39)	-	(45)
Extraordinary events not related to operations				
Gain on disposal of Pine Ridge pit and assets				(6,913)
Working capital from operations	(521)	(405)	705	(309)
Net change in working capital	324	(227)	143	104
	(197)	(632)	848	(205)
FINANCING				
Due to City of Winnipeg - General Revenue Fund	486	938	(855)	(10,371)
Repayment of long-term debt	(151)	(197)	(78)	(99)
Proceeds of issuance of long-term debt	45	-	-	-
Dividends paid	-	-	-	(325)
	380	741	(933)	(10,795)
INVESTING				
Proceeds on disposal of capital assets	68	-	-	11,000
Purchase of capital assets	(241)	(63)	-	-
	(173)	(63)	-	11,000
INCREASE IN CASH POSITION	10	46	(85)	-
CASH POSITION, BEGINNING OF YEAR	29	39	85	-
CASH POSITION, END OF YEAR	$ 39	$ 85	$ -	$ -

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

NOTES TO THE FINANCIAL STATEMENTS

(in thousands of dollars, except as noted)

1. Description of Business

Glacial Sand and Gravel - Special Operating Agency ("Agency") commenced operations on January 1, 2001. Since the inception, sales of gravel pit aggregate, limestone, and treated sand are realized from both The City of Winnipeg and private industry customers.

2. Summary of Significant Accounting Policies

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

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

Inventory

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

Capital assets

Capital assets 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

Amounts billed for products not yet delivered are recorded as deferred revenue. 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. *Due to 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, and the amounts reported as cash represent bank deposits not yet charged to this account. Interest is credited or charged based on the City's average short-term earnings (cost of funds) on the single bank account.

Effective January 1, 2005, the previously authorized $400 thousand operating line of credit from The City of Winnipeg - Idea Bank Reserve was replaced with access to term debt financing at the City's applicable borrowing rate. As at December 31, 2005 there were no amounts owing with respect to this borrowing arrangement.

4. *Accounts Receivable*

	2007	2006
Trade accounts receivable	**$ -**	$ -
Allowance for doubtful accounts	-	-
	$ -	$ -

5. *Income Tax Equivalency*

As part of the municipal government, the Agency is not subject to corporate income taxes. However, in order to approximate a business model, the operation of the Agency is assessed with an income tax equivalency charge/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.

There is no expectation of profitability in the future and no basis for maintaining an income tax recoverable amount on the balance sheet. The income tax expense for 2006 is more than offset by cumulative losses from previous years. As a result there is no charge or recovery recorded for 2006.

6. *Capital Assets*

Pine Ridge pit and assets expected to be sold in 2007.

	Cost	**Accumulated Amortization/ Depletion**	**Net Book Value 2007**	Net Book Value 2006
Gravel pit	**$ -**	**$ -**	**$ -**	$ 3,268
Machinery	-	-	-	705
Building under capital lease	-	-	-	43
Computer equipment	-	-	-	27
Land clearing	-	-	-	28
Building	-	-	-	15
Office equipment	-	-	-	1
	$ -	**$ -**	**$ -**	$ 4,087

7. Long-Term Debt

As a result of expected sale of Pine Ridge pit and assets it is expected all debt will be extinguished in 2007.

	2007	2006
City of Winnipeg - Equipment and Materials Services:		
Gravel pit loan, interest at 6.5%, no repayment schedule	**3,800**	3,800
City of Winnipeg - Fleet Management - Special Operating Agency		
Equipment loan, interest at 6.5%, payment of $6.5 thousand monthly, due February 2008	**-**	87
Capital leaseobligations	**-**	12
	3,800	3,899
Current portion of long-term debt	**(3,800)**	(3,883)
	$ -	$ 16

8 Economic Dependence

The Agency is dependent upon City of Winnipeg financing for its future viability.

9 ComparativeFigures

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation.

Financial Impact Statement **Date: November 28, 2006**

Project Name - 2007 Business Plan: Glacial Sand & Gravel Special Operating Agency

Comments:

2007 Financial Projections are included as appendix to this report. The 2006 historical financial information throughout this report is based on preliminary financial results and don't reflect 2006 final audited financial information.

Original Signed by Darcy Stewart, CA

Manager of Finance and Administration

IN PREPARING THIS REPORT THERE WAS:

Internal Consultation With and Concurrence By:
Business Review and Credit Committee (BRACC)

External Consultation With:
No external consultation was warranted.

THIS REPORT SUBMITTED BY:

Department:	Public Works Department	
Division:	Glacial Sand & Gravel SOA	
Prepared by:	Preetipal Paul, P. Eng.	Phone No: 986-5335
File No.:	Glacial 2007 Business Plan	