Report - Alternate Service Delivery Committee - March 12, 2007

Item No. 1 Winnipeg Fleet Management Special Operating Agency – 2007 Annual Selection Report
File GL-5.6.1

COMMITTEE RECOMMENDATION:

On March 14, 2007, the Executive Policy Committee concurred in the recommendation of the Alternate Service Delivery Committee and submits the following to Council:

1. That the Winnipeg Fleet Management Agency 2007 Selection Report (Summary of Business Plan) including the 2007 Budget, be approved and the Financial Projections for 2008 and 2009, as outlined in Appendix 3 to the report from the Chief Information Officer dated November 21, 2006, be received as information.

2. That in accordance with Subsection 215 (4) of The City of Winnipeg Charter with respect to Special Service Units, additional long-term borrowing of up to $21.5 million be approved in 2007 and the Winnipeg Fleet Management Special Operating Agency be authorized to finance a portion of its operations through external sources, including from the City's bank, or from any other persons or corporations, including the City of Winnipeg Sinking Fund Trustees, for a total cumulative borrowing authorization of up to $45.3 million.

3. That Winnipeg Fleet Management Agency's Operating Charter be amended by:

   A. Adding the contents of Appendix 1 to the report from the Chief Information Officer dated November 21, 2006, immediately after subsection 5.9 of the Operating Charter.

   B. Adding the contents of Appendix 2 to the Report from the Chief Information Officer dated November 21, 2006, immediately after the existing contents of Appendix B of the Operating Charter.

4. That interest payments to departments on their loan accounts be waived in order to transfer a maximum of $375,000.00 in related savings as part of the total transfers for 2007 from the Winnipeg Fleet Management Agency to the General Revenue Fund.

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5. That the Winnipeg Fleet Management Agency's line of credit with the City of Winnipeg be increased from $5 million to $10 million to allow for bridge financing between the time when the cash is needed and term financing is arranged and that the $10 million line of credit be included in the total cumulative borrowing authorization of $45.3 million.

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

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

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DECISION MAKING HISTORY:

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On March 14, 2007, the Executive Policy Committee concurred in the recommendation of the Alternate Service Delivery Committee and submitted the matter to Council.

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 received a PowerPoint Presentation with respect to the 2007 Annual Selection Report from Mr. Y. Lupien, Chief Operating Officer, Winnipeg Fleet Management Special Operating Agency.

RE: 2007 ANNUAL SELECTION REPORT (SUMMARY OF BUSINESS PLAN) - WINNIPEG FLEET MANAGEMENT AGENCY (SOA)

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

ORIGINAL REPORT SIGNED BY: Cliff Jeffers, Chief Information Officer

REPORT DATE: November 21, 2006

RECOMMENDATION (S):

It is recommended:

1. That Council approve the Winnipeg Fleet Management Agency's 2007 Selection Report (summary of Business Plan) including the 2007 budget, and receive the 2008 and 2009 financial projections as information (attached as Appendix 3).
2. That Council approve additional long-term borrowing of up to $21.5 million in 2007, in accordance with subsection 215 (4) of the City of Winnipeg Charter with respect to Special Service Units, and authorization be given to the Winnipeg Fleet Management Agency (SOA) to finance a portion of its operations through external sources, including from the City's bank, or from any other persons or corporations, including the City of Winnipeg Sinking Fund Trustees, for a total cumulative borrowing authorization of up to $45.3 million.
3. That the Winnipeg Fleet Management Agency's Operating Charter be amended by:
    a. adding the contents of Appendix 1 of this Report immediately after subsection 5.9 of the Operating Charter; and
    b. adding the contents of Appendix 2 of this Report immediately after the existing contents of Appendix B of the Operating Charter.
4. That interest payments to departments on their loan accounts be waived in order to transfer a maximum of $375,000 in related savings as part of the total transfers for 2007 from Winnipeg Fleet Management Agency to the general revenue fund.
5. That Council approve an increase in the Winnipeg Fleet Management Agency's line of credit with the City of Winnipeg from $5 million to $10 million to allow for bridge financing between the time when the cash is needed and term financing is arranged, and that the $10 million line of credit is included in the total cumulative borrowing authorization of $45.3 million.
6. That the proper officers of the City of Winnipeg be authorized to do all things necessary to implement the intent of the foregoing, including the execution of any documents related thereto.

REPORT SUMMARY:

Key Issues:

- There are proposed changes to the Agency's Operating Charter and Organization Chart.
- The Agency requires an additional $21.5 million in long-term borrowing for 2007 to finance a portion of its operations including capital acquisitions and partial repayment of debt - due to the City of Winnipeg.
- The Agency will be working on the integration of the remainder of the vehicle fleet and associated services of the Water and Waste Department. In addition, the Agency will continue to work with the Winnipeg Fire Paramedic Service to improve the management their heavy fleet through RTA fleet management software and to coordinate the implementation of RTA fleet management software at the Winnipeg Police Service repair facility.

Implications of the Recommendation(s):

General Implications

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

Comment(s): The Agency will be working on the integration of the remainder of the vehicle fleet and associated services of the Water and Waste Department. In addition, the Agency will continue to work with the Winnipeg Fire Paramedic Service to improve the management their heavy fleet through RTA fleet management software and to coordinate the implementation of RTA fleet management software at the Winnipeg Police Service repair facility.

Policy Implications

- ☐ No
- ☒ Yes

Comments: A change to the Agency's Operating Charter will allow the Agency to establish a transfer policy. Any amendment to the Agency's Operating Charter requires Council approval**.**

Regulatory Implications

- ☒ None
- ☐ Eliminates or reduces regulatory impact
- ☐ Proposes regulatory impact

Environmental Implications

- ☒ No
- ☐ Yes

Human Resource Implications

☐ No
☒ Yes

Comment(s): The Agency will be working on the integration of the remainder of the vehicle fleet and associated services of the Water and Waste Department. In addition, the Agency will continue to work with the Winnipeg Fire Paramedic Service to improve the management their heavy fleet through RTA fleet management software and to coordinate the implementation of RTA fleet management software at the Winnipeg Police Service repair facility.

Financial Implications

☐ Within approved current and/or capital budget
☒ Current and/or capital budget adjustment required

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

REASON FOR THE REPORT:

Winnipeg Fleet Management Agency's Operating Charter stipulates that a Selection Report (summary of business plan) be submitted to Council each year. Any amendments to the Agency's Operating Charter require Council approval.

HISTORY:

On May 28, 2003, the Winnipeg Fleet Management Agency (WFMA) received Council approval to operate as a Special Operating Agency (SOA) of the City of Winnipeg, effective January 1, 2003. The creation of the SOA provided for a distinct, accountable Agency dedicated to fleet service delivery with the ability to provide integrated service and comprehensive fleet management expertise to its customers. WFMA manages a fleet of approximately 1,600 light, heavy and specialty vehicles ranging from riding mowers to front end loaders, using life cycle cost management principles.

Historical milestones in the creation of the Agency included:

- On March 20, 1997, Council adopted a document entitled "Reshaping our Civic Government". The document identified the development of Special Operating Agencies ("SOA") as one of the five strategic initiatives needed to create a more affordable and fundamentally better civic government.
- On September 24, 1997, Council adopted the strategic direction with regard to SOAs identified in the report entitled "Special Operating Agencies Initiative".
- On March 25, 1998, Council adopted the Policy and Framework for Alternative Service Delivery (ASD), which recommended that certain services be studied as potential candidates for delivery outside of the departmental structure of government.
- In 1999, Public Works Department conducted a feasibility study of alternative service delivery options for those services provided by Equipment and Material Services (EMS). The report was presented in June 2000 and it recommended that EMS become a Special Operating Agency.

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

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

- On November 24, 2005, Council adopted a recommendation that gave the Chief Administrative Officer (CAO), or delegate, direct authority over Special Operating

Agencies. Effective November 30, the WFMA Chief Operating Officer was directed to report to the Chief Information Officer of the City of Winnipeg, as delegate.

DISCUSSION:

The Agency's mandate, mission, vision, lines of service and priorities are outlined as follows:

Mandate

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

Mission

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

Vision

To be the best public fleet service provider in North America

Services

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

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

3. **Fleet Maintenance** - This service includes preventative and corrective maintenance for vehicles and equipment. The maintenance and repair of the fleet is conducted at two repair facilities and one satellite facility in Winnipeg. This service requires constant, day-to-day interactions with customers while their vehicles and equipment are being maintained. Service trucks are also used to conduct on-site maintenance as required for immobile equipment, flat tires, or for other like circumstances where the vehicle or equipment cannot attain access to a repair facility.

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

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

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

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

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

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

Agency Priorities

The Agency's priorities for 2007 include:

- Expand Agency services to City of Winnipeg departments, including integrating Water and Waste Departments' vehicle fleet and associated services by January 1, 2007 and devising a strategy for implementing the RTA fleet management software in the Winnipeg Police Services' repair facility.
- Provide continued support to Winnipeg Fire Paramedic Service through the RTA fleet management software.
- Implement strategy for upgrading the fuel storage tanks and pumps at fuelling locations owned by the City of Winnipeg, to ensure compliance with new provincial fuel storage regulations.
- Develop operational management reporting using RTA fleet management software and Business Objects/Crystal Reports.
- Implement the recommendations of a facility safety audit conducted in 2006.
- Conduct trials on fuel efficiency options for customers, including investigating idle reduction technologies (e.g. in-cab heaters) and continuing the evaluation of hybrid vehicles.
- Investigate alternative fuel opportunities and hybrid technologies by providing financial and administrative support to the Red River Valley Clean Cities Coalition Winnipeg

Chapter (a non-profit that promotes alternative fuel and green vehicle technology market development locally).

- Assume full responsibility for all human resources and payroll activities previously managed by Public Works beginning March 1, 2007.
- Manage a biodiesel demonstration project, including overseeing construction of a biodiesel station at 1220 Pacific Avenue.
- Obtain customer signed lease agreements, outlining the terms and conditions of leasing and roles and responsibilities of customers and WFMA.
- Implement RTA fleet management software at the Agency's manufacturing facility.
- Ensure continued compliance with American Public Works Association accreditation.
- Implement a new Accident Reporting System to optimize the accident tracking and reporting process.
- Enhance the preventative maintenance program.
- Attract new lines of business with other public organizations through the hiring of a new Marketing & Customer Services Administrator.
- Explore technologies for tracking tire inventory, and investigate tire standardization, and devise effective tire management practices.
- Expand the standardized City of Winnipeg Parts Numbering System to all WFMA facilities.
- Implement environmental office initiatives, including a double sided printing policy and an office-recycling program.
- Integrate RTA fleet management system with PeopleSoft and expand automated billing capabilities.

Administrative Progression

The Agency is recommending a revision to the Operating Charter to establish a Transfer Policy, as outlined in Appendix 1. The following non-policy, administrative items will allow for a transition toward the recommended Transfer Policy:

1) Expense Transfers to the City of Winnipeg

   Transfers to the City which are supportable, generally based on service agreements, shall be classified as expense in the Agency's Statement of Operations and Retained Earnings, and include the following:

   - Transfers to Public Works for HR services in 2007; ending in 2007
   - Transfers to Public Works for operator training services; service level agreement and amount (projected at $250,000) to be negotiated by the Agency and Public Works
   - Transfers to Civic Accommodation for rent of facilities; ongoing service

   Income tax equivalency, previously a transfer to the City as a charge or recovery to income will cease to be a transfer. The Agency is not subject to corporate income taxes, and though industry competitors are subject to income tax, the Agency is subject to other transfers to the City's general revenue fund through distribution of retained earnings. In addition, previous

results of operations produced income tax recoverable amounts. The removal of income tax equivalency enables the Agency to report its financial results based on factual revenues and expenses. This change will allow the Agency to report its operations based on precise business transactions, and allow for more accurate market comparisons.

Net income for the year may not be placed in a loss position as a result of transfers to the City.

2) Retained Earnings Transfers to the City of Winnipeg for 2007 and 2008

Transfers to the City as a distribution from retained earnings, are projected at up to $1,495 thousand for 2007, and up to $1,120 thousand for 2008, with limitation. The transfer amounts are limited to the current year's audited net income for the year. The following represents the 2007 and 2008 retained earnings transfers to the City:

- GST equivalency: 2007; $562 thousand, 2008; $562 thousand
- PeopleSoft savings equivalency: 2007; $137 thousand, 2008; $137 thousand
- Interest equivalency: 2007; $375 thousand
- General government charges: 2007; $421 thousand, 2008; $421 thousand

The Agency will pay the total transfer amount to a general revenue fund account to be determined by the City, prior to the close of the year, with any adjustments due to changes to the audited net income for the year to be made in the following year. Note that the full transfer payment will be made provided the net income for the year is equal or greater than the projected transfer amounts for 2007 and 2008. If net income for the year is less than the transfer amounts for 2007 and 2008, the transfer payment amount is the amount of net income for the year.

3) Debt - due to the City Repayment Transfers to the City of Winnipeg

The Agency will repay a portion of its debt - due to the City as follows:

- $4,500 thousand, to be repaid at the end of 2007
- $4,446 thousand, to be repaid at the end of 2008

All City of Winnipeg debt except for the line of credit debt shall be converted to equity during 2008. Interest on the debt - due to City balances, is represented through retained earnings transfers to the City for 2007.

Financial Projections

The Agency’s projected net income from operations for 2007 is $1,534 thousand with total revenues projected at $33,282 thousand and total expenses projected at $31,748 thousand.

Transfers to the City of Winnipeg - general revenue fund as a distribution from retained earnings are projected at $1,495 thousand for 2007. In addition, the Agency will transfer $4,500 thousand to the City of Winnipeg - general revenue fund for repayment of a portion of its debt - due to the City of Winnipeg.

The Agency is projecting net income from operations for 2008 in the amount of $912 thousand and net income from operations for 2009 in the amount of $975 thousand.

Transfers to the City of Winnipeg - general revenue fund as a distribution from retained earnings are projected to be $912 thousand for 2008 with no distribution projected for 2009. The Agency will transfer an additional $4,446 thousand in 2008 to the City of Winnipeg - general revenue fund for repayment of a portion of its debt – due to the City of Winnipeg. All City of Winnipeg debt except for the line of credit/term debt will be converted to equity during 2008.

Notes to Recommendations

Explanations for the proposed recommendations are provided below. These recommendations are policy related and require Council approval.

1) That Council approve the Winnipeg Fleet Management Agency's 2007 Selection Report (summary of Business Plan) including the 2007 budget, and receive the 2008 and 2009 financial projections as information (attached as Appendix 3).

2) That Council approve additional long-term borrowing of up to $21.5 million in accordance with subsection 215 (4) of the City of Winnipeg Charter with respect to Special Service Units, and authorization be given to the Winnipeg Fleet Management Agency (SOA) to finance a portion of its operations through external sources, including from the City's bank, or from any other persons or corporations, including the City of Winnipeg Sinking Fund Trustees, for a total cumulative borrowing authorization of up to $45.3 million.

    a) The Agency's additional loan requirements for 2007 amount to $21.5 million. Borrowed funds will be used to finance a portion of its operations including capital acquisitions in the amount of $17 million and partial repayment of debt - due to the City of Winnipeg in the amount of $4.5 million. The Agency has total borrowing authority in the amount of $23.8 million as adopted by Council on July 26, 2006 in the WFMA 2006 Selection Report. 2007 additional Council borrowing authority of $21.5 million is requested by the Agency through its 2007 Selection Report, for total cumulative borrowing authorization of up to $45.3 million.

3) That the Winnipeg Fleet Management Agency's Operating Charter be amended by:

    a) adding the contents of Appendix 1 of this Report immediately after subsection 5.9 of the Operating Charter.

        i) The Agency is recommending the establishment of a Transfer Policy. Subject to amendments by the City, the Agency will target a debt to worth (equity) ratio of 4.1,

based on industry averages per Risk Management Association (RMA) Financial Ratio Benchmarks. Retained earnings transfers to the City will be eligible for distribution once the Agency's debt worth (equity) ratio reaches and is maintained at a target of 4.1 or better, effective after 2008, and subject to transfers not placing retained earnings in a deficit position. Eligible amounts shall be distributed based on a policy to be developed by the City of Winnipeg.

b) adding the contents of Appendix 2 of this Report immediately after the existing contents of Appendix B of the Operating Charter.

i) The Agency is recommending a revision to its organization chart.

4) That interest payments to departments on their loan accounts be waived in order to transfer a maximum of $375,000 in related savings as part of the total transfers for 2007 from Winnipeg Fleet Management Agency to the general revenue fund, as outlined in the Transfer Policy Operating Charter revision.

a) The transfer of interest savings to the City of Winnipeg - general revenue fund will assist the City with budget demands.

5) That Council approve an increase in the Winnipeg Fleet Management Agency's line of credit with the City of Winnipeg from $5 million to $10 million to allow for bridge financing between the time when the cash is needed and term financing is arranged, and that the $10 million line of credit be inclusive of, and not in addition to, the total cumulative borrowing authorization of $45.3 million.

a) An increase in the line of credit would provide the Agency flexibility to draw funds in accordance with the stability or volatility of interest rates throughout the year.

6) That the proper officers of the City of Winnipeg be authorized to do all things necessary to implement the intent of the foregoing, including the execution of any documents related thereto.

Financial Impact Statement Date: 21-Nov-06

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

COMMENTS:

See attached Projected Financial Statements of the Winnipeg Fleet Management Agency

Original Signed by Cheryl Turman, CA

Supervisor of Finance & Administration

IN PREPARING THIS REPORT THERE WAS:

Internal Consultation With and Concurrence By:

Corporate Services Department
Corporate Finance Department

External Consultation With: N/A

THIS REPORT SUBMITTED BY:

Department:	Winnipeg Fleet Management Agency (SOA)
Prepared by:	Yvan Lupien, Chief Operating Officer
File No.:	2007 Selection Report

Appendices

1. **Changes to the Operating Charter**

2. **Organization Chart**

3. **Financial Projections**

Appendix 1

WINNIPEG FLEET MANAGEMENT AGENCY

CHANGES TO THE OPERATING CHARTER

APPENDIX 1 - CHANGES TO THE OPERATING CHARTER

ADDITION TO SECTION 5: FINANCIAL FRAMEWORK OF THE OPERATING CHARTER

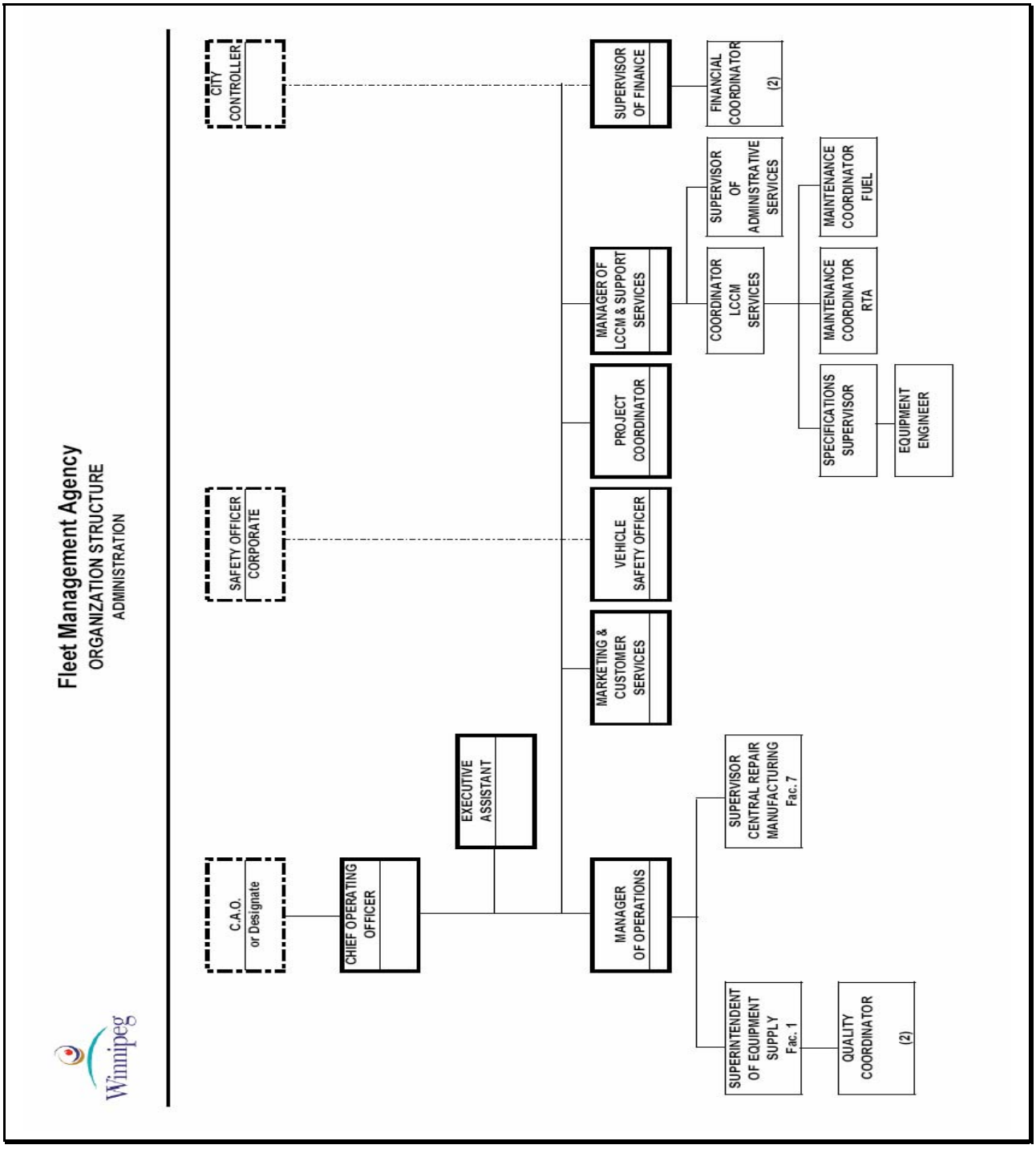
Section 5.10 Transfer Policy

5.10.1 Retained Earnings Transfers to the City of Winnipeg

Subject to amendments by the City, the Agency will target a debt to worth (equity) ratio of 4.1, based on industry averages per Risk Management Association (RMA) Financial Ratio Benchmarks. Retained earnings transfers to the City will be eligible for distribution once the Agency's debt worth (equity) ratio reaches and is maintained at a target of 4.1 or better, effective after 2008, and subject to transfers not placing retained earnings in a deficit position. Eligible amounts shall be distributed based on a policy to be developed by the City of Winnipeg.

Appendix 2

WINNIPEG FLEET MANAGEMENT AGENCY
ORGANIZATIONAL CHART



Appendix 3

WINNIPEG FLEET MANAGEMENT AGENCY

FINANCIAL PROJECTIONS

2007 - 2009

SEE SEPARATE ADOBE ATTACHMENT