**Agenda - Council - July 18, 2007**

**Report – Executive Policy Committee – July 11, 2007**

**Item No. 4 Glacial Sand and Gravel Special Operating Agency Exit Plan 2007**
**File GL-5.6.1**

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On July 11, 2007, the Executive Policy Committee concurred in the administrative recommendation and submitted the following to Council:

1. That prior to December 31, 2007, the Chief Financial Officer of the City of Winnipeg transfer the surplus funds of Glacial Sand and Gravel Special Operating Agency (SOA) to an interest-bearing account in the General Ledger until further direction from Council.

2. That prior to December 31, 2007, the Chief Administrative Officer of the City of Winnipeg ensure that the remaining operations, assets and liabilities of Glacial Sand and Gravel Special Operating Agency are transferred to the Public Works Department.

3. That effective December 31, 2007, the Glacial Sand and Gravel Special Operating Agency be dissolved, its Operating Charter revoked and that the Advisory Board be discharged with thanks.

4. That the Director of Public Works be authorized to renew or decline to renew the business name of the Agency (Glacial Sand and Gravel) upon its renewal date in 2010.

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

**Pursuant to the Operating Charter for the Glacial Sand and Gravel Special Operating Agency, approval by two-thirds of all Members of Council is required to dissolve the Agency or revoke the Agency's Operating Charter.**

**Report – Executive Policy Committee – July 11, 2007**

DECISION MAKING HISTORY:

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On July 11, 2007, the Executive Policy Committee concurred in the administrative recommendation and submitted the matter to Council.

**RE: Glacial Sand and Gravel Special Operating Agency (SOA) Exit Plan 2007**

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

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

**REPORT DATE:** June 08, 2007

**RECOMMENDATIONS:**

That Council direct:

1. That prior to December 31, 2007, the Chief Financial Officer of the City of Winnipeg transfer the surplus funds of Glacial Sand and Gravel Special Operating Agency (SOA) to an interest-bearing account in the General Ledger until further direction from the Council;
2. That prior to December 31, 2007, the Chief Administrative Officer of the City of Winnipeg ensure that the remaining operations, assets and liabilities of Glacial Sand and Gravel Special Operating Agency are transferred to the Public Works Department;
3. That, effective December 31st, 2007, the Glacial Sand and Gravel Special Operating Agency (SOA) be dissolved, its Operating Charter revoked and that the Advisory Board be discharged with thanks;
4. That the Director of the Public Works Department be authorized to renew or decline to renew the business name of the Agency (Glacial Sand and Gravel) upon its renewal date in 2010; and
5. 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:**

- Glacial Sand and Gravel completed its business review in 2005-06 and Council adopted the Administration's recommendation to sell the Pine Ridge Property along with its reserve assets and equipment on September 27, 2006.
- The sale of the Pine Ridge Property, along with its reserve assets and equipment, disposed of the primary asset of the SOA. The only remaining assets are the Transcona Pit and the Gunton property.
- The Agency currently has a royalty agreement for the Transcona Pit in place until 2009 or until depletion of the pit material. The current operation of the Transcona Pit is maintained through part-time staff.

- The Gunton property is undeveloped and is not expected to be mined in the near future.
- This Report recommends that, rather than maintaining a skeleton staff and maintaining the Glacial Sand and Gravel SOA effectively as a shell, the Agency should be terminated by
    - transferring its surplus funds to an interest bearing account in the General Ledger until such time that Council decides what to do with the monies;
    - transferring its remaining assets and liabilities to the Public Works Department;
    - revoking Glacial Sand and Gravel's Operating Charter.

**NOTE: Revocation of the Operating Charter of Glacial Sand and Gravel SOA requires support by a majority of the total number of members of Council.**

**Implications of the Recommendation(s):**

**General Implications**

( ) None
(X) For the organization overall and/or for other departments
( ) For the community and/or organizations external to the City
(X) Involves a multi-year contract
Comment(s): It is recommended that Glacial Sand and Gravel's two existing pits (Transcona and Gunton) will be transferred to the Public Works Department and the multiyear contract for the Transcona Pit will be assigned to Public Works Department upon dissolution of the Agency.

**Policy Implications**

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

**Regulatory Implications**

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

**Environmental Implications**

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

**Human Resources Implications**

( ) No
(X) Yes

Comment(s): All permanent employees of Glacial Sand and Gravel are in the process of being redeployed and the process will be completed before the end of 2007.

**Financial Implications**

(X) Within approved current and/or capital budget

( ) Current and/or capital budget adjustment required

Comment(s): It is proposed that the royalty contract for the Transcona Pit, along with the assets, be transferred to the Public Works Department upon dissolution of the Agency.

## Report

**REASON FOR THE REPORT:**

At the March 21, 2007, meeting, Council adopted the recommendation of the Alternate Service Committee which 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.

Also, Glacial Sand and Gravel's Operating Charter stipulates that the termination of the charter requires a majority of the total number of Members of Council to dissolve the Agency or revoke the Agency's Operating Charter.

**HISTORY:**

Glacial Sand and Gravel (GSG) was designated a Special Operating Agency (SOA) by Council effective January 1, 2001. The Agency had three properties namely:

- Pine Ridge Pit;
- Transcona Pit; and
- Gunton property.

Operating as a SOA, and adhering to business-like principles, the Agency was intended to produce the best return for the asset to the taxpayers. To review its performance and plan for the future business strategy, the Agency initiated and completed its strategic review of the business in 2005 -06. Based upon the recommendations of that business review, Council directed Glacial management and the Public Works Department to initiate an Expression of Interest and Proposal (EOIP) process for the Pine Ridge Pit and equipment. The EOIP process was completed in 2006 and a decision was made on September 27, 2006 by the Council to sell the Pine Ridge Pit along with its reserve assets and equipment.

**DISCUSSION:**

As of February, 2007, the sale agreement for the Pine Ridge Pit had been completed and the property handed over to the new owners along with the reserve assets and equipment. The current status of the Agency's operations for the remaining two properties is as follows:

- There is still an ongoing royalty agreement at the Transcona Pit that runs until 2009 or depletion of the pit material, whichever comes first; and
- The second property, Gunton is undeveloped and will not be mined in the near future.

**Current Royalty Agreement**
The Agency has an ongoing royalty agreement at the Transcona Pit for the sale of bank run material. This agreement, based on a royalty rate, is in place until July 2009 or until the pit material is depleted.

The current operating model under the royalty agreement is to run a normal pit operation. There are no real operating efficiencies to be achieved with another approach other than managing the City's property in a prudent manner. Transferring the Transcona Pit operations to the Public Works Department will bring some efficiency in terms of operating costs. The department has the staff and resources to manage the pit so that there will be no need to maintain a dedicated skeleton staff within the Special Operating Agency.

**Financial Highlights:**
Detailed financial statements based upon projections of expenses and revenues up to December 2007 have been enclosed with the report as appendix A.
Highlights include:

- The Pine Ridge pit along with its assets was sold for an amount of $11M;
- Retained earnings are projected to be $9.864M at the end of 2007 and will be transferred to the appropriate account until Council recommends a use for the funds;
- Interest gained at the City's rate has been included in the projections until end of the year; and
- All future expenses related to Transcona pit will be borne by Public Works Department through its own budget and revenues generated by the Transcona pit.

**Staff Redeployment**
All of the Agency's permanent staff is in the process of being redeployed to different divisions within the Public Works Department. Redeployment will be completed by the end of 2007. Currently the Transcona pit is being managed through part time staff of the SOA.

Permanent CUPE employees of Glacial will be re-deployed within the Public Works Department based on their seniority. Seasonal CUPE employees will be recalled for work elsewhere in the Public Works Department based on their seniority and workloads in the department.

In total, 4 permanent CUPE staff and 1 permanent WAPSO (exempt) staff will be transferred to the Public Works Department. A provision has been made to pay salaries of the staff by Glacial till the end of 2007 or until budgeted positions become available within different divisions of Public Works Department, whichever is earlier.

**Advisory Board**
Glacial management would like to thank the Advisory Board members for their contributions over the years. If the recommendations in this Report are adopted by Council, the Board will be discharged from its duties upon dissolution of the Agency with an expression of thanks for its service.

**Date of Dissolution**
It is proposed that the Glacial Sand and Gravel SOA be dissolved and its Operating Charter revoked as of December 31, 2007. This is the fiscal year end for the Agency and provides sufficient time to ensure an orderly transition of assets and responsibilities to the Public Works Department.

## Financial Impact Statement **Date:** June 7, 2007

## Project Name:

**Glacial Sand and Gravel Special Operating Agency (SOA) Exit Plan 2007**

**COMMENTS:**

2007 Financial Projections are included as appendix to this report.

**IN PREPARING THIS REPORT THERE WAS:**

**Internal Consultation With and Concurrence By:**
Corporate Services Department - Legal Services Division
Corporate Finance Department

**External Consultation With:**
N/A

**THIS REPORT SUBMITTED BY:**

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

# Appendix A - Projected Financial Statements for the year 2007

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

### STATEMENT OF PROJECTED FINANCIAL POSITION

*As at December 31*
*(in thousands of dollars)*

| | Projected **2007** | Audited 2006 |
|---|---|---|
| ***ASSETS*** | | |
| Current | | |
| Due from City of Winnipeg - General Revenue Fund (Note 3) | **$ 9,864** | $ - |
| Accounts receivable | **-** | 280 |
| Inventory | **-** | 277 |
| Capital assets held for sale | **-** | 4,066 |
| | **9,864** | 4,623 |
| Capital assets | **-** | 27 |
| | **$ 9,864** | $ 4,650 |
| ***LIABILITIES*** | | |
| Current | | |
| Due to City of Winnipeg - General Revenue Fund (Note 3) | **$ -** | $ 1,412 |
| Accounts payable and accrued liabilities | **-** | 28 |
| Deferred revenue | **-** | 272 |
| Vacation payable | **-** | 31 |
| Current portion of long-term debt (Note 5) | **-** | 3,875 |
| | **-** | 5,618 |
| Retirement allowance (Note 6a) | **-** | 45 |
| Long-term debt (Note 5) | **-** | 12 |
| | **-** | 5,675 |
| ***CAPITAL*** | | |
| Retained Earnings (Deficit) | **9,864** | (1,025) |
| | **$ 9,864** | $ 4,650 |

*See accompanying notes to the financial statements*

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

## STATEMENT OF PROJECTED OPERATIONS AND RETAINED EARNINGS

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

| | Projected 2007 | Audited 2006 |
|---|---|---|
| ***REVENUES*** | | |
| Sales of goods and services | **$ 672** | $ 2,419 |
| Interest income (Note 7) | **323** | - |
| | **995** | **2,419** |
| ***EXPENSES*** | | |
| Administrative services | **3** | 283 |
| Amortization and depletion | **-** | 286 |
| Interest (Note 5) | **15** | 90 |
| Material, parts and supplies | **280** | 351 |
| Salaries and benefits | **267** | 382 |
| Services | **42** | 661 |
| | **607** | 2,053 |
| Net income | **388** | 366 |
| Extraordinary event - gain on disposal of Pine Ridge Pit and assets (Note 4) | **10,501** | - |
| Net income for the year | **10,889** | 366 |
| ***RETAINED DEFICIT, BEGINNING OF YEAR*** | **(1,025)** | (1,391) |
| ***RETAINED EARNINGS (DEFICIT), END OF YEAR*** | **$ 9,864** | $ (1,025) |

*See accompanying notes to the financial statements*

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

## STATEMENT OF PROJECTED CASH FLOWS

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

***NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:***

| | Projected **2007** | Audited 2006 |
|---|---|---|
| ***OPERATING*** | | |
| Net income for the year | **$ 10,889** | $ 366 |
| Non-cash items related to operations | | |
| Amortization and depletion | **-** | 286 |
| Retirement allowance | **(45)** | - |
| Working capital from operations | **10,844** | 652 |
| Net change in working capital | **226** | 37 |
| | **11,070** | 689 |
| ***FINANCING*** | | |
| Due from City of Winnipeg - General Revenue Fund | **(11,276)** | (683) |
| Cancellation/repayment of long-term debt (Note 5) | **(3,887)** | (90) |
| | **(15,163)** | (773) |
| ***INVESTING*** | | |
| Disposal (purchase) of capital assets | **4,093** | (1) |
| | **4,093** | (1) |
| ***(DECREASE) INCREASE IN CASH POSITION*** | **-** | (85) |
| ***CASH POSITION, BEGINNING OF YEAR*** | **-** | 85 |
| ***CASH POSITION, END OF YEAR*** (Note 3) | **$ -** | $ - |

*See accompanying notes to the financial statements*

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

## NOTES TO THE PROJECTED FINANCIAL STATEMENTS

*As at December 31, 2007*
*(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.

As a result of the Agency's continuing losses, on February 15, 2006, the Executive Policy Committee approved the issuance of a request for Expressions of Interest for disposition or other commercial arrangements with respect to all or part of the Agency's active equipment and land/reserve assets.

On September 27, 2006, City Council approved the sale of the Agency's Pine Ridge property, facilities, equipment and reserve assets for $11.0 million. Transfer of ownership occurred February 5, 2007.

### *2. Summary of Significant Accounting Policies*

**Future Oriented Financial Information**

The projected 2007 financial information utilized actual results to April 30, 2007. Estimates are included in the projections to the period ending December 31, 2007. As a result of the use of estimates in projecting these results, the actual results achieved for this period will vary and the variations may be material.

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

**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 accounts receivable, due to/due from 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/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. Interest is credited or charged based on the City's average short-term earnings (cost of funds) on the single bank account.

### 3. *Due to/due from City of Winnipeg - General Revenue Fund (continued)*

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, 2007 it is projected there will be no amounts owing with respect to this borrowing arrangement.

### 4. *Disposal of Pine Ridge Pit and assets*

On September 27, 2006, City Council approved the sale of the Agency's Pine Ridge property, facilities, equipment and reserve assets for $11.0 million. Transfer of ownership occurred February 5, 2007.

| | |
|---|---|
| Sale price | **$ 11,000** |
| Interest for change in closing period | **29** |
| Credit for royalty contract amounts previously paid by purchaser | **(235)** |
| Proceeds received | **10,794** |
| Net Book Value of disposed assets | |
| Gravel pit | **3,273** |
| Machinery | **705** |
| Building under capital lease | **43** |
| Land clearing | **28** |
| Building | **15** |
| Office equipment | **2** |
| | **4,066** |
| Gain on disposal - sale of Pine Ridge pit and assets | **6,728** |
| Cancellation of gravel pit loan with City of Winnipeg - Equipment and Material Services (Note 5) | **3,800** |
| Write-down of obsolete computer equipment | **(27)** |
| Gain on disposal of Pine Ridge Pit and assets | **$ 10,501** |

### 5. *Long-Term Debt*

| | **2007** | 2006 |
|---|---|---|
| City of Winnipeg - Equipment and Material Services: | | |
| Gravel pit loan, non-interest bearing, cancelled in 2007 | **$ -** | $ 3,800 |
| City of Winnipeg - Fleet Management - Special Operating Agency: | | |
| Equipment loan, interest at 6.5%, payment of $6.5 thousand monthly, extinguished April 2007 | **-** | 87 |
| | **-** | 3,887 |
| Current portion of long-term debt | **-** | (3,875) |
| | **$ -** | $ 12 |

## 5. *Long-Term Debt (continued)*

The Agency's $3.8 million gravel pit loan with City of Winnipeg - Equipment and Material Services (EMS) and the offsetting Due from Glacial Sand and Gravel in the books of EMS are assumed to be cancelled in 2007. The entire proceeds and gain from the sale of the Pine Ridge Pit and assets are reflected in the Agency's statements.

a) Interest on the equipment loan during the year is projected to be $2 thousand (2006 - $8 thousand) paid to The City of Winnipeg - Equipment and Material Services and Fleet Management - Special Operating Agency; and

b) Cash paid for interest during the year is projected to be $13 thousand (2006 - $82 thousand).

## 6. *Employee Benefits*

### a) Retirement allowance

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 service. In addition, adjustments arising from plan amendment, changes in assumptions, and experience gains and losses are amortized on a straight-line basis over 14.4 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 retirement allowance obligation as at December 31 of each year. The most recent actuarial valuation report was at December 31, 2006.

Information about the Agency's retirement allowance benefit plan is as follows:

| | **2007** | 2006 |
|---|---|---|
| Retirement allowance - accrued obligation: | | |
| Balance, beginning of year | **$ 45** | $ 42 |
| Current service cost | **-** | 1 |
| Interest cost | **-** | 2 |
| Transferred to tax-supported operations | **(45)** | - |
| Retirement allowance - accrued liability | **$ -** | $ 45 |

It is assumed that all staff will be redeployed within the tax-supported operations of the Public Works Department by December 31, 2007.

### 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. During the year it is projected $16 thousand (2006 - $22 thousand) of pension costs will be allocated to the Agency. An actuarial valuation for the Winnipeg Civic Employees' Benefits Program was made as of December 31, 2005 and has an actuarial surplus.

## *7. Related Party Transactions*

In addition to those disclosed elsewhere in the financial statements the transactions that are projected to occur are as follows:

a) Interest income of $323 thousand (2006 - $nil) from The City of Winnipeg, and

b) Charges in the amount of $16 thousand (2006 - $75 thousand) to Fleet Management - Special Operating Agency for services related to equipment supply, maintenance, and fuel.

## *8. 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. The income tax expense for 2007 is more than offset by cumulative losses from previous years. As a result there is no charge or recovery recorded for 2007.