Minutes – Executive Policy Committee – March 19, 2009

Minute No. 211
Report – Alternate Service Delivery Committee – March 6, 2009

Item No. 1 Winnipeg Fleet Management Agency Special Operating Agency - 2009 Business Plan (Selection Report) and Operating Charter amendments eFile GL-5.6.1

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

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's 2009 Business Plan (Selection Report) including the 2009 budget be approved, and the 2010 and 2011 financial projections as information, attached as Appendix 2 to the report of the Chief Operating Officer, Winnipeg Fleet Management Agency Special Operating Agency (SOA) dated January 15, 2009, be received as information.

2. That an additional long-term borrowing of up to $12.4 million in 2009, in accordance with subsection 215 (4) of the City of Winnipeg Charter with respect to Special Service Units be approved, 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.

3. That an increase in the Winnipeg Fleet Management Agency SOA's line of credit with the City of Winnipeg from $10.0 million to $20.0 million be approved, and a temporary increase to $37.0 million be approved to allow for bridge financing between the time when the cash is needed and term financing is arranged, and that the $37.0 million line of credit be included in the total cumulative borrowing authorization.

4. That the creation of a City of Winnipeg Vehicle Safety Program be approved, to be coordinated by the Winnipeg Fleet Management Agency SOA.

5. That the Winnipeg Public Service be requested to report back to the Alternate Service Delivery Committee, within 60 days, on the cost of having an operational review conducted by an outside firm on the Winnipeg Fleet Management Agency SOA.

6. That the Winnipeg Fleet Management Agency SOA Charter be amended to include a Board of Directors comprising of a designate sitting member of the Alternate Service Delivery Committee, the Chief Administrative Officer and the Deputy Chief Administrative Officers.

Minutes – Executive Policy Committee – March 19, 2009

Report – Alternate Service Delivery Committee – March 6, 2009

7. 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.

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

Minutes – Executive Policy Committee – March 19, 2009

Report – Alternate Service Delivery Committee – March 6, 2009

DECISION MAKING HISTORY:

Moved by Deputy Mayor Swandel,

That the recommendation of the Alternate Service Delivery Committee be concurred in and forwarded to Council.

Carried

COMMITTEE RECOMMENDATION:

On March 6, 2009, the Alternate Service Deliver Committee concurred in the recommendation of the Winnipeg Public Service and submitted the matter to the Executive Policy Committee and Council.

On November 8, 2007, the Alternate Service Delivery Committee passed the following motion, namely:

1. That the Winnipeg Fleet Management Agency be directed to report back in early February, 2008, on assuming the administration of City driver training to decrease accident rates and increase fuel efficiency.

On July 17, 2006, the Alternate Service Delivery Committee referred the submission from the President, Scootering Manitoba, dated May 25, 2006, with respect to parking and parking legislation for motorized scooters and motorcycles to the Winnipeg Public Service for review and report back.

RE: 2009 BUSINESS PLAN (SELECTION REPORT) – WINNIPEG FLEET MANAGEMENT AGENCY (SPECIAL OPERATING AGENCY)

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

ORIGINAL REPORT SIGNED BY: Yvan Lupien, ***MBA, MPA, MCIT***, Chief Operating Officer

REPORT DATE: January 15, 2009

RECOMMENDATION(S):

It is recommended:

1. That Council approve the Winnipeg Fleet Management Agency's 2009 Business Plan (Selection Report) including the 2009 budget, and receive the 2010 and 2011 financial projections as information, attached as Appendix 2.
2. That Council approve additional long-term borrowing of up to $12.4 million in 2009, 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.
3. That Council approve an increase in the Winnipeg Fleet Management Agency's line of credit with the City of Winnipeg from $10.0 million to $20.0 million, and approve a temporary increase to $37.0 million to allow for bridge financing between the time when the cash is needed and term financing is arranged, and that the $37.0 million line of credit is included in the total cumulative borrowing authorization.
4. That Council approve the creation of a City of Winnipeg Vehicle Safety Program, to be coordinated by the Winnipeg Fleet Management Agency.
5. 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:

- The Agency requires $12.4 million in long-term borrowing authority to finance a portion of its operations including capital acquisitions.
- The Agency will continue with the integration of Winnipeg Police Service's vehicle fleet and the implementation of RTA fleet management software at the Winnipeg Police Service repair facility.
- The Agency will continue with the remediation of all City fuel sites with the exception of two fuel sites under the Transit Department's control.
- The relocation of the Agency's main operations at Tecumseh Street is to accommodate the Winnipeg Regional Health Authority's request for the property as part of its planned expansion of the Health Sciences Centre. The move also includes the Public Works Signals Group currently located on the property.
- The Agency has agreed to accept the City's terms of the sale at below market value in support of the City's Bio-Med City zone, provided the Agency does not suffer a loss on the City- directed transaction. The net loss on disposal of the Agency's property is estimated at $2.4 million and is included in the financial projections. The Agency will enter into discussions with the City to determine the City's mitigation of the Agency's loss on the sale of its land and buildings to the Health Sciences Centre. The Agency will require a separate relocation site.
- The Agency plans to relocate its operations to an existing property. The financial projections reflect the relocation as a lease transaction. However, the Agency intends to determine if a public-private partnership is a more feasible structure.
- The City's Vehicle Safety Program will apply to all departments operating Agency vehicles and equipment, to reduce risk to drivers, supervisors, and to the City with respect to negligence in a court of law, through sufficient training of drivers and operators.
- The City has experienced a high vehicle accident and incident rate. The total repair costs of accidents and incidents during 2007 was $1.9 million (2006 - $2.0 million).
- The financial statements for 2007 are attached for information in Appendix 1.
- The historical cumulative borrowing authority is attached for information in Appendix 3.

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 of Winnipeg
- [ ] Involves a multi-year contract

Comment(s): The Agency will continue with the integration of Winnipeg Police Service's vehicle fleet and the implementation of RTA fleet management software at the Winnipeg Police Service repair facility.

The Agency will continue with the remediation of all City fuel sites with the exception of two fuel sites under the Transit Department's control.

Policy Implications

- [X] No
- [ ] Yes

Comments:

Regulatory Implications

- [X] None
- [ ] Eliminates or reduces regulatory impact
- [ ] Proposes regulatory impact

Environmental Implications

- [X] No
- [ ] Yes

Human Resource Implications

- [ ] No
- [X] Yes

Comment(s): The Agency will continue with the integration of Winnipeg Police Service's vehicle fleet and the implementation of RTA fleet management software at the Winnipeg Police Service repair facility.

The City's Vehicle Safety Program requires the addition of two safety officer positions within the Agency, and four operator training positions within Public Works.

Financial Implications

☐ Within approved current and/or capital budget

☒ Current and/or capital budget adjustment required

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

REASON FOR THE REPORT:

In accordance with the Winnipeg Fleet Management Agency's Operating Charter, a Business Plan (Selection Report) is to be submitted to Council.

HISTORY:

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 May 28, 2003, Winnipeg Fleet Management Agency received Council approval to operate as a Special Operating Agency of the City of Winnipeg, effective January 1, 2003.

DISCUSSION:

Service Overview

Service Description

Agency services are provided to most City of Winnipeg departments including Community Services, Fire Paramedic Services, Planning, Property and Development, Police Services, Public Works, and Water and Waste, for direct service delivery to the Citizens of Winnipeg. The Agency offers the following services:

- Vehicle, equipment, and other asset lifecycle cost management
- Vehicle and equipment acquisition, leasing, and disposal
- Fuel supply and management
- Vehicle and equipment repair and maintenance
- Vehicle and equipment insurance, licensing, and registration
- Vehicle and equipment manufacturing and fabrication
- Safety training and accident management
- Vehicle and equipment rentals

Key Goals

The Agency's goals are as follows:

1. Present planned and demanded vehicles and equipment to ensure City departments' operational performance requirements and safety legislative requirements are met.
2. Maintain fleet service centres which provide superior customer service and administrative support to the City's geographically dispersed and varying fleet, while ensuring reliability and safety.
3. Manage the City's fuel distribution system on a day to day and emergency basis, providing customers with a safe, cost-effective, dependable and convenient fuel supply, while ensuring compliance with legislation.
4. Encourage fleet greenhouse gas emission awareness through research, education, testing, and offering environmentally friendly vehicles and equipment, and alternative fuels.
5. Expand fleet management services to new customers within the City, and offer services to external public sector markets.

Service Level Statistics

Description	2005	2006	2007	3 Year Average
Number of vehicle and equipment bid opportunities completed	55	89	87	77
Number of vehicle and equipment units acquired	175	148	171	165
Number of insurance and license registrations completed	1,642	1,620	1,598	1,620
Number of service repairs, by work order lines completed	38,728	40,366	47,811	42,302
Number of service labour hours completed	41,891	33,944	50,531	42,122
Number of parts used	139,283	115,090	125,151	126,508
Number of fuel fill-up transactions and odometer readings verified	107,994	99,201	105,140	104,112
Litres of unleaded gasoline, clear diesel, marked diesel and biodiesel provided	7,363,540	6,712,253	7,184,076	7,086,623
Number of internal and external motor pool rental days provided	n/a	76,676	72,550	74,613
Number of vehicle and equipment units disposed	185	150	174	170

Strategic Direction

Mission

To provide economical, state-of-the-art, safe and eco-friendly fleet vehicle, equipment and other asset management services to The City of Winnipeg and other public sector organizations, in support of their service delivery.

Vision

To become the best public sector fleet services provider in North America.

Link to Plan Winnipeg

Plan Winnipeg's vision of providing the Citizens of Winnipeg with affordable, responsive, and innovative public service, is linked to the Agency through the following:

- 2B-02 Commit to the Reduction of Greenhouse Gas Emissions
- 2B-03 Commit to Responsive Government
- 2B-04 Provide Sound Municipal Management
- 2B-05 Meet High Standards of Service Delivery

Synopsis of Policy Direction

Winnipeg Fleet Management Agency is a Special Operating Agency (SOA) of the City of Winnipeg, with its own Operating Charter approved by Council. The Agency abides by The City's collective agreements and by-laws. The Agency also follows provincial regulations such as the Environment Act, the Contaminated Sites Remediation Act, Workplace Safety and Health Act, the Employment Standards Code.

Key Factors Influencing Service Delivery

Bio-Med City Zone
The City of Winnipeg's Bio-Med City zone, planned for expansion of the Health Sciences Centre, requires the Agency to relocate its main Tecumseh Street fleet operations.

Best Business Practices
The Agency has been recognized as "a leader in the future of fleet operations throughout North America" by the American Public Works Association (APWA), and was awarded with APWA accreditation.

Fuel Regulations
New fuel legislation prescribes upgrades or closures to all City fuel facilities.

Safety Regulations
The Health and Safety Act amended the criminal liability of organizations to make safety a priority.

Vehicle and Equipment Rentals
North American automakers have reduced sales to vehicle rental companies, resulting in increased rental prices and shortages in available rental units.

Labour Shortages
Nation-wide skilled labour shortages, particularly in certified heavy duty mechanics increased the challenge of staffing front-line positions within the Agency.

Summary of Goals and Strategies

1. Present planned and demanded vehicles and equipment to ensure City departments' operational performance requirements and safety legislative requirements are met.

- Evaluate vehicles and equipment and prepare specifications for quality units that accommodate customer requirements by involving customers in buying decisions
- Enhance lifecycle cost management analysis and replacement planning
- Develop sound and innovative contractual and partnering agreements including contracting for repeat purchases
- Provide and install fire equipment and safety kits according to safety legislation

- Provide accident reporting kits and implement an accident call centre system
- Evaluate an automated technology to assist with pre-trip and post-trip safety inspections and data reporting

2. Maintain fleet service centres which provide superior customer service and administrative support to the City's geographically dispersed and varying fleet, while ensuring reliability and safety.

- Enhance repair services through the implementation of state-of-the-art shop improvement initiatives
- Evaluate ways to standardize the City's fleet to reduce parts wait time
- Implement an improved shift schedule to increase shop productivity and enhance maintenance services
- Measure and evaluate customer surveys and comment cards to provide the Agency with a direct means to tailor services provided
- Maintain communications through regular customer meetings, customer bulletins, customer newsletter and a customer website

3. Manage the City's fuel distribution system on a day to day and emergency basis, providing customers with a safe, cost-effective, dependable and convenient fuel supply, while ensuring compliance with legislation.

- Provide competitively priced re-fuelling for vehicles and equipment at fuel sites strategically located across the City
- Automate fuel service and ensure all fuel is managed by a single standard fuel reporting system
- Manage fuel station upgrade costs required under new fuel legislation, and eliminate a number of under-used fuel sites within the City
- Implement black box recorders and fuel vehicle management system

4. Encourage fleet greenhouse gas emission awareness through research, education, testing, and offering environmentally friendly vehicles and equipment, and alternative fuels.

- Investigate and implement alternative fuel and advanced vehicle options while maintaining the operational integrity of the vehicles and equipment and their intended use
- Manage a biodiesel fuel trial, partially funded by the federal WinSmart program
- Evaluate plug-in hybrid and electric vehicle opportunities
- Assist in the development and deployment of a city-wide Green Vehicle Plan aimed at reducing city-wide fuel use
- Evaluate technologies to reduce vehicle idling for City vehicles that require heating, cooling and battery power while at work sites

5. Expand fleet management services to new customers within the City and offer services to external public sector markets.

- Implement RTA fleet management system in Winnipeg Police Services
- Review possibilities for implementation of the RTA fleet management system in Winnipeg Transit

- Present vehicle and equipment leasing opportunities to Manitoba Rural Municipalities
- Market to external cities across Canada and the Unites States promoting fleet consulting services

Performance Information

Effectiveness Measures

Description	2005	2006	2007
Number of fleet units managed	1,584	1,530	1,610
Net book value of fleet assets in-service	$26,617,000	$34,284,000	$41,593,000
Debt/worth ratio	18.3	11.9	11.5

Number of Fleet Units Managed

The Agency manages The City's fleet in a manner that ensures the lowest possible life cycle cost, while maintaining consistently high mechanical reliability. The Agency has increased its City customer base, and has converted higher cost external rentals to lower cost fleet leases, managed by the Agency.

Net Book Value of Fleet Assets In-service

The Agency is committed to investment in fleet assets through life cycle cost management, improving the productivity and suitability of The City's fleet, while lowering costs and extending the useful life of vehicles and equipment used in direct service delivery to the Citizens of Winnipeg.

Debt/worth Ratio

The Agency's current debt/worth ratio is higher than industry average of 4.1, which is partially reflective of funds transferred from the Agency to The City, during the Agency's first five years of operations.

Efficiency Measures

Description	2005	2006	2007
Hourly repair shop labour rate	$73.00	$78.00	$80.00
Average fuel price per litre	$0.83	$0.88	$0.92
Daily external rental lease rate	$27.11	$36.23	$37.10

Hourly Repair Shop Labour Rate

The Agency's standard hourly repair shop labour rate is 12% below comparable average private sector repair shop labour rates.

Average Fuel Price per Litre
The Agency's average fuel price per litre for unleaded gasoline, clear diesel, and marked diesel is two cents below market rates. Biodiesel is currently being offered by the Agency on a trial basis at well below market rates.

Daily External Rental Lease Rate
The Agency's external rental lease rate per day is 11% below the average industry cost comparison.

Financial Information

Financial Performance

See Appendix 2 for Projected Financial Statements, Notes and Assumptions.

RECOMMENDATIONS

It is recommended:

1. That Council approve the Winnipeg Fleet Management Agency's 2009 Business Plan (Selection Report) including the 2009 budget, and receive the 2010 and 2011 financial projections as information, attached as Appendix 2.
2. That Council approve additional long-term borrowing of up to $12.4 million in 2009, 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.
3. That Council approve an increase in the Winnipeg Fleet Management Agency's line of credit with the City of Winnipeg from $10.0 million to $20.0 million, and approve a temporary increase to $37.0 million to allow for bridge financing between the time when the cash is needed and term financing is arranged, and that the $37.0 million line of credit is included in the total cumulative borrowing authorization.
4. That Council approve the creation of a City of Winnipeg Vehicle Safety Program, to be coordinated by the Winnipeg Fleet Management Agency.
5. 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.

In regards to Recommendation 3, the Agency requires a $10.0 million increase to its line of credit to facilitate annual external borrowing draws. Due to recent global market conditions the Agency requires a temporary increase in its line of credit to $37.0 million to finance a portion of its operations including capital acquisitions, until long-term borrowing is arranged. Once long-term borrowing is secured, the line of credit will revert back to the $20.0 million limit.

Financial Impact Statement Date: October 29, 2008

Project Name: 2009 Business Plan (Selection Report) - Winnipeg Fleet Management Agency (SOA)

COMMENTS:

See Appendix 2 for Financial Projections, Notes and Assumptions

Original Signed by Cheryl Turman, CA

Supervisor of Finance & Administration

IN PREPARING THIS REPORT THERE WAS:

Internal Consultation With and Concurrence By: Business Review and Credit Committee

External Consultation With: N/A

THIS REPORT SUBMITTED BY:

Department: Winnipeg Fleet Management Agency (SOA)
Prepared by: Yvan Lupien, Chief Operating Officer
File No.: 2009 Business Plan (Selection Report)

APPENDIX 1 – 2007 FINANCIAL STATEMENTS AND NOTES



2007 Financial Statements

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

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.

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 Equipment and Material Services (EMS) to an SOA. Further, Council approved that the Business Plan and Operating Charter be premised on the following principles:

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

The Agency commenced operations on January 1, 2003.

On May 28, 2003, Council adopted the Agency's first Selection Report (summary of business plan and operating charter).

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

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

STATEMENT OF FINANCIAL POSITION

As at December 31
(in thousands of dollars)

	2007	2006
ASSETS		
Current		
Cash	$ -	$ 1
Due from The City of Winnipeg - General Revenue Fund (Note 5)	**289**	2,392
Accounts receivable	**149**	123
Loan receivable (Note 6)	-	87
Inventory	**1,511**	1,388
Prepaid expenses	**243**	216
	2,192	4,207
Capital assets (Note 7)	**47,643**	38,960
	$ **49,835**	$ 43,167
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ **482**	$ 677
Vacation payable	**591**	682
Current portion of long-term debt (Note 8)	**14,406**	6,655
	15,479	8,014
Long-term debt (Note 8)	**27,000**	27,418
Deferred revenue	**2,135**	3,319
Retirement allowance (Note 9a)	**633**	655
Environmental liability (Note 10)	**420**	420
Asset retirement obligations (Note 11)	**176**	-
	30,364	31,812
	45,843	39,826
Commitments (Note 12)		
SURPLUS		
Contributed surplus	**390**	390
Retained earnings	**3,602**	2,951
	3,992	3,341
	$ **49,835**	$ 43,167

See accompanying notes and schedule to the financial statements

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

STATEMENT OF OPERATIONS AND RETAINED EARNINGS

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

	2007	2006
REVENUES		
Fleet leases	$ **15,475**	$ 13,476
Services and parts revenue (Schedule 1)	**7,308**	6,140
Fuel sales	**6,542**	5,734
Rental income	**2,715**	2,698
Amortization of deferred revenue	**870**	1,359
Gain on sale of capital assets	**465**	1,518
Total Revenues	**33,375**	30,925
EXPENSES		
Services	**8,216**	7,261
Supplies	**8,076**	7,388
Salaries and employee benefits	**7,012**	7,012
Amortization	**6,500**	5,372
Interest (Note 8)		
Short-term	**72**	62
Long-term	**802**	22
Other	**552**	344
Total Expenses	**31,230**	27,461
Net income from operations	**2,145**	3,464
Charges from The City of Winnipeg - General Revenue Fund (Note 13f)	**-**	(1,862)
Net income and comprehensive income for the year	**2,145**	1,602
RETAINED EARNINGS, BEGINNING OF YEAR	**2,951**	1,349
Transfer to The City of Winnipeg - General Revenue Fund (Note 13g)	**(1,494)**	-
RETAINED EARNINGS, END OF YEAR	$ **3,602**	$ 2,951

See accompanying notes and schedule to the financial statements

THE CITY OF WINNIPEG
FLEET MANAGEMENT - 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:

	2007	2006
OPERATING		
Net income for the year	$ **2,145**	$ 1,602
Non-cash items related to operations		
Amortization	**6,500**	5,372
Amortization of deferred revenue	**(870)**	(1,359)
Gain on sale of capital assets	**(465)**	(1,518)
Retirement allowance	**(22)**	(26)
Accretion expense	7	-
Working capital from operations	**7,295**	4,071
Net change in working capital	**(462)**	(107)
	6,833	3,964
FINANCING		
Decrease (increase) in Due from		
The City of Winnipeg - General Revenue Fund	**2,103**	(1,401)
Proceeds from term loans	**13,500**	17,700
Repayment of term loans	**(1,316)**	-
Repayment of debt - The City of Winnipeg	**(5,165)**	(8,357)
Transfer to The City of Winnipeg - General Revenue Fund	**(1,494)**	-
	7,628	7,942
INVESTING		
Purchase of capital assets	**(15,429)**	(15,117)
Decrease in loan receivable	**87**	70
Proceeds from sale of capital assets	**880**	3,091
	(14,462)	(11,956)
Decrease in cash	**(1)**	(50)
CASH, BEGINNING OF YEAR	**1**	51
CASH, END OF YEAR	$ -	$ 1

See accompanying notes and schedule to the financial statements

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007
(in thousands of dollars)

1. *Commencement of Operations*

On May 28, 2003, City Council adopted the Fleet Management Agency Selection Report, that recommended the Equipment and Material Services operation of the Public Works Department commence operations as a Special Operating Agency (the "Agency") effective January 1, 2003.

The Agency provides economical, state-of-the-art, safe and eco-friendly fleet vehicle, equipment and other asset management services to The City of Winnipeg and other public sector organizations, in support of their service delivery.

2. *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 significant accounting policies summarized below.

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

Inventory

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

Capital assets

Capital assets, other than land and buildings, transferred from The City of Winnipeg on January 1, 2003 are recorded at their estimated net realizable value on that date. Subsequent acquisitions are recorded at cost. Land and buildings are stated at assessed values as of January 1, 2003, which were determined by The City of Winnipeg Property Assessment Department.

Capital assets are amortized on the basis of their cost less approximate residual value over their estimated useful lives using the following rates and methods:

Buildings and parking	4% to 8%	Straight-line
Fleet assets		
Acquired at start-up	30%	Declining balance
Purchased	Lease term	Straight-line
Equipment	10% to 30%	Straight-line

Amortization begins once an asset is placed in service.

Revenue recognition

The Agency enters into operating lease agreements to supply and maintain vehicles and equipment to lessees for specified lease periods. The Agency recognizes the monthly lease payments from the lessees as income each month. Services and parts revenue, including insurance and fuel sales, are recognized upon the completion of the work or transfer of the goods or service. Revenue from short-term rentals of vehicles or equipment is recognized as income evenly over the rental period.

2. *Significant Accounting Policies (continued)*

Deferred revenue

Deferred revenue represents the value of fleet assets acquired from The City of Winnipeg at start-up. This amount is recognized as income at the same rate that the related assets are being amortized.

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

Asset retirement obligations

Asset retirement obligations are measured initially at fair value in the period in which the obligations are incurred, provided that a reasonable estimate of the fair value can be made. The retirement cost is added to the carrying amount of the related asset. In subsequent periods, the retirement cost is amortized over the useful life of the asset and the carrying value of the liability is increased to recognize increases in the liability's present value with the passage of time.

Future accounting policy changes

The Canadian Institute of Chartered Accountants ("CICA") has issued two new standards, CICA 3862, Financial Instruments - Disclosures and CICA 3863, Financial Instruments - Presentation, which enhance the abilities of users of financial statements to evaluate the significance of financial instruments to an entity, related exposures and management of these risks.

The CICA has also issued a new accounting standard, CICA 1535, Capital Disclosures, which requires the disclosure of qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and procedures for managing capital.

These changes in accounting policies, which will be adopted effective January 1, 2008, will only require additional disclosures in the financial statements.

3. *Changes in Accounting Policies*

On January 1, 2007, the Agency retroactively adopted, without restatement of prior periods, the CICA Handbook Sections 3855, Financial Instruments - Recognition and Measurement; Section 3861, Financial Instruments - Disclosure and Presentation; and Section 1530 Comprehensive Income.

According to Section 3855, all financial instruments are classified into one of the following five categories: held-for-trading, loans and receivables, held-to-maturity, available-for-sale or other liabilities. Initial measurement of financial instruments is at fair value; subsequent measurement and recognition of changes in fair value of financial instruments depends on their initial classification. The Agency's due from The City of Winnipeg - General Revenue Fund and accounts receivable are classified as loans and receivables. Accounts payable and accrued liabilities, vacation payable and long-term debt have been classified as other liabilities. Financial assets and liabilities classified as loans and receivables and other liabilities are measured at amortized cost. The Agency will recognize changes in the fair value of loans and receivables only if realized, or impairment in the value of an asset occurs. The Agency has not classified any financial instrument as held-for-trading, held-to-maturity or available-for-sale. The adoption of the new standard had no impact on the Agency's financial position or on the results of its operations.

3. *Changes in Accounting Policies (continued)*

Section 1530 provides guidance on the reporting and presentation of comprehensive income. Comprehensive income is the change in the retained earnings of the Agency during a period from transactions and other events and circumstances from sources other than from the City. It includes all changes in retained earnings during a period except those resulting from investments by the City and distributions to the City. Other comprehensive income comprises revenues, expenses, gains and losses that, in accordance with primary sources of GAAP, are recognized in comprehensive income, but are excluded from net income. The adoption of this standard had no impact on the Agency's retained earnings as at January 1, 2007.

Effective January 1, 2007, the Agency also adopted CICA Section 1506, Accounting Changes. The new standard allows for voluntary changes in an accounting policy only when the changes result in the financial statements providing reliable and more relevant information, requires a change in accounting policy to be applied retroactively and calls for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. It includes the disclosure, on an annual basis, of a description and the impact on the Agency's financial results of any new primary source of GAAP that has been issued but is not yet effective. The adoption of the new standard did not have an impact on the Agency's financial position or on the results of its operations.

4. *Financial Instruments*

It is management's opinion that the Agency is not exposed to significant interest, currency or credit risks arising from its financial instruments. The book value of the Agency's financial assets and liabilities approximates their fair value.

5. *Due from The City of Winnipeg - General Revenue Fund*

The City of Winnipeg operates a centralized treasury function with a single operating bank account in the General Revenue Fund. Consequently, the Agency does not have a bank account. Bank transactions are credited or charged to the "Due (to)/from" account when they are processed through the bank. Interest is credited or charged based on The City of Winnipeg's average short-term cost of funds, which is a function of the Bank of Canada rate. The December 31, 2007 effective interest rate was 4.3% (2006 - 4.3%). As well, the Agency has negotiated an operating line of credit up to $300 thousand and a line of credit up to $10,000 thousand for short-term financing from The City of Winnipeg.

6. *Loan Receivable*

	2007	2006
The City of Winnipeg Glacial Sand and Gravel - Special Operating Agency - equipment financing program loan, interest at 6.5%	$ -	$ 87
Current portion	-	(87)
	$ -	$ -

7. ***Capital Assets***

	Cost	Accumulated Amortization	Net Book Value 2007	Net Book Value 2006
Land	$ 390	$ -	$ 390	$ 390
Buildings	3,377	398	2,979	2,168
Fleet assets				
Acquired at start-up	11,386	9,472	1,914	2,952
Purchased	54,136	12,838	41,298	32,750
Equipment	2,245	1,183	1,062	700
	$ 71,534	$ 23,891	$ 47,643	$ 38,960

The net book value of fleet assets not yet in service is $1,619 thousand (2006 - $1,418 thousand).

8. ***Long-term Debt***

Lender	Maturity Dates	Interest Rate	2007	2006
Royal Bank of Canada (Note 8b)	2011 - 2019	4.53% - 5.20%	$ 29,883	$ 17,700
The City of Winnipeg Equipment and Material Services - non-interest bearing, no repayment schedule			1,148	1,148
The City of Winnipeg (Notes 8c and 13e)			10,375	15,225
			41,406	34,073
Current portion of long-term debt			(14,406)	(6,655)
			$ 27,000	$ 27,418

a) Principal repayments due within the next five years and thereafter are as follows:

2008	$ 14,406
2009	3,025
2010	3,173
2011	3,327
2012	3,038
Thereafter	14,437
	$ 41,406

b) The Agency has a revolving facility by way of a series of term loans in the amount of $35,000 thousand. The term loans bear a fixed rate of interest quoted by the bank at the time of each borrowing. As at December 31, 2007, $29,883 thousand (2006 - $17,700 thousand) was outstanding under this facility. The effective interest rate at December 31, 2007 was 4.6% (2006 - 4.6%).

c) On May 28, 2003, City Council approved the transfer of the Equipment Replacement Reserve Fund balance at January 1, 2003 to the Agency, to be used as a source of financing for fleet replacement, thereby resulting in the termination of the Fund at January 1, 2003. In 2005, interest charges ceased. The balance has decreased during the year by repayments.

d) Cash paid for interest during the year is $786 thousand (2006 - $nil).

9. *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 10.4 years, which represents the expected average remaining service life of the employee group. Amortization is calculated beginning in the year following the year of occurrence of the actuarial gains or losses.

The Agency measures its accrued retirement allowance obligation as at December 31 of each year. An actuarial valuation report of the obligation was prepared effective December 31, 2005. The results of this valuation were extrapolated to December 31, 2007.

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

	2007	2006
Retirement allowance - accrued obligation:		
Balance, beginning of year	$ **652**	$ 678
Current service cost	**31**	33
Interest cost	**28**	29
Net actuarial gain	**(12)**	-
Benefit payments	**(81)**	(88)
Balance, end of year	**618**	652
Unamortized net actuarial gain	**15**	3
Retirement allowance - accrued liability	$ **633**	$ 655

Retirement allowance expense consists of the following:

	2007	2006
Current service cost	$ **31**	$ 33
Interest cost	**28**	29
	$ **59**	$ 62

The significant actuarial assumptions adopted in measuring the retirement allowance obligation for the year ended December 31 are as follows:

	2007	2006
Valuation interest rate	**4.70%**	4.50%
General increases in pay	**3.00%**	3.00%

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, $397 thousand (2006 - $397 thousand) of pension costs were allocated to the Agency. An actuarial valuation for the Winnipeg Civic Employees' Benefits Program was made as of December 31, 2006 and indicates an actuarial surplus.

10. *Environmental Liability*

The Agency has included an estimate of the cost to remediate fuel sites. A third party has estimated the cost at $420 thousand (2006 - $420 thousand).

11. *Asset Retirement Obligations*

Asset retirement obligations have been recognized for the decommissioning of the Agency's petroleum storage tank systems. The Agency estimates the amount to settle the asset retirement obligations are $43 thousand which will be incurred prior to December 31, 2009 for decommissioning two petroleum tank systems. The balance of $133 thousand is to be incurred at an undetermined date. Estimates are based on a third party engineering firm valuation. Funds have not been set aside to settle the asset retirement obligations.

Asset retirement obligations are as follows:

	2007	2006
Liability	$ **169**	$ -
Accretion expense	**7**	-
Balance, end of year	$ **176**	$ -

12. *Commitments*

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

	Operating Leases
2008	$ 986
2009	878
2010	688
2011	484
2012	111
	$ 3,147

The Agency has commitments that relate to future upgrading and closing requirements for existing fuel storage facilities in the amount of $652 thousand, approved by the Chief Administrative Officer in The City of Winnipeg Fuel Sites Report.

13. *Related Party Transactions*

The Agency is wholly-owned by The City of Winnipeg. Transactions between the Agency and The City of Winnipeg are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

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

13. Related Party Transactions (continued)

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

a) Revenues include sales of goods and services of $30,039 thousand (2006 - $26,835 thousand) to The City of Winnipeg.

b) An amount of $179 thousand (2006 - $131 thousand) has been transferred to the Civic Accommodations Fund for the rental of office and garage space.

c) An amount of $325 thousand (2006 - $nil) has been transferred to the Public Works Department - General Revenue Fund for operator training services.

d) During the year, transfers were made to City of Winnipeg Funds for miscellaneous services as follows:

	2007	2006
General Revenue Fund	$ **251**	$ 196
Winnipeg Parking Authority - Special Operating Agency	**1**	-
	252	196

e) During the year, transfers were made to various City of Winnipeg Funds for the repayment of debt as follows:

	2007	2006
General Revenue Fund	$ **4,836**	$ 6,083
Building Services	**8**	-
Animal Services - Special Operating Agency	**6**	40
Waterworks System	**-**	260
Sewage Disposal System	**-**	260
Solid Waste Disposal	**-**	130
	4,850	6,773
Write-down of debt	**-**	749
	$ **4,850**	$ 7,522

f) Charges from The City of Winnipeg - General Revenue Fund

	2007	2006
GST equivalency	$ **-**	$ 580
General government charges	**-**	421
Interest equivalency	**-**	400
Grant - Autopac rebate to Public Works Department	**-**	377
PeopleSoft savings equivalency	**-**	66
Income tax equivalency	**-**	18
	$ **-**	$ 1,862

13. Related Party Transactions (continued)

Goods and Services Tax (GST) equivalency

As part of the municipal government, the Agency pays GST on its purchases. In 2004, the Agency received a 4% input tax credit with the remaining 3% input tax credit retained by The City of Winnipeg. Beginning in 2005, the Agency receives the full GST input tax credit and is charged by The City of Winnipeg a GST equivalency representing the 3% input tax credit retained by The City of Winnipeg. In 2007, the GST equivalency charge ceased.

General government charges

The Agency is charged by The City of Winnipeg general government charges, which represents the estimated share of The City of Winnipeg's general expenses applicable to the Agency. In 2007, general government charges ceased.

Interest equivalency

During 2004, the Agency paid interest on long-term debt. In 2005, interest on long-term debt ceased and the Agency is charged by The City of Winnipeg an interest equivalency, representing interest on long-term debt. In 2007, the interest equivalency charge ceased.

Grant - Autopac rebate to Public Works Department

A grant was made to the Public Works Department, representing the amount of Autopac rebate received by the Agency. In 2007, the grant - Autopac rebate transfer ceased.

PeopleSoft savings equivalency

The City of Winnipeg operates a central finance function and charges the Agency a fee representing purchasing savings equivalency, as determined by the Corporate Finance Department. In 2007, the PeopleSoft savings equivalency charge ceased.

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 which is payable to The City of Winnipeg based on the following rates:

Small business rate on the first $300 thousand of net income	17.62%
Manitoba Small Business Rate ($300 to $400 thousand)	26.62%
Regular corporate rate on the balance	36.62%

The gain on sale of fleet assets acquired at inception is excluded from net income for the purpose of the tax calculation. In 2007, the income tax equivalency charge ceased.

g) Transfer to The City of Winnipeg - General Revenue Fund

An amount of $1,494 thousand (2006 - $nil) was transferred to the General Revenue Fund as a return on investment.

14. Subsequent Event

On November 21, 2007, City Council adopted the Agency's 2008 Selection Report (Business Plan Summary) thereby approving the transfer of the Agency's long-term debt due to The City of Winnipeg to contributed surplus.

THE CITY OF WINNIPEG **Schedule 1**
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

SCHEDULE OF SERVICES AND PARTS REVENUE

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

	2007	2006
Consumables and corrective maintenance	$ 3,333	$ 2,465
Insurance revenue	1,488	1,458
Other	761	253
Power tools	656	653
Manufacturing sales	544	791
Autopac rebate	370	377
Provincial support grant	132	132
Interest	24	11
	$ 7,308	$ 6,140

APPENDIX 2 – FINANCIAL PROJECTIONS, NOTES & ASSUMPTIONS



2009 Financial Projections

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

Projected Financial Statements
Three Years Ending December 31, 2011

On March 20, 1997, Council adopted a document entitled "Reshaping our Civic Government". The document identified the development of Special Operating Agencies ("SOA") as one of the five strategic initiatives needed to create a more affordable and fundamentally better civic government.

On September 24, 1997, Council adopted the strategic direction with regard to SOAs identified in the report entitled "Special Operating Agencies Initiative".

On March 25, 1998, Council adopted the Policy and Framework for Alternative Service Delivery (ASD), which recommended that certain services be studied as potential candidates for delivery outside of the departmental structure of government.

In 1999, Public Works Department conducted a feasibility study of alternative service delivery options for those services provided by Equipment and Material Services (EMS). The report was presented in June 2000 and it recommended that EMS become a Special Operating Agency.

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

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

The Agency commenced operations on January 1, 2003. The 2009 financial projections represent the Agency's seventh year as a Special Operating Agency.

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

PROJECTED STATEMENT OF FINANCIAL POSITION

As at December 31 *(in thousands of dollars)*	Actual 2007	Restated Budget 2008	Forecast 2008	Variance 2008	2009	2010	2011
ASSETS							
Current							
Cash	$ -	$ 1	$ 1	$ -	$ 1	$ 1	$ 1
Due from (to) City - General Revenue Fund (Note 5)	289	(2,624)	(684)	1,940	(262)	(538)	(833)
Trade receivables	149	83	140	57	143	146	149
Inventory	1,511	1,642	1,642	-	1,675	1,709	1,743
Prepaid expenses	243	195	225	30	195	199	203
	2,192	(703)	1,324	2,027	1,752	1,517	1,263
Capital assets (Note 6)	47,643	69,140	58,224	(10,916)	64,358	69,876	71,255
	$ 49,835	$ 68,437	$ 59,548	$ (8,889)	$ 66,110	$ 71,393	$ 72,518
LIABILITIES							
Current							
Accounts payable and accrued liabilities	$ 482	$ 393	$ 479	$ 86	$ 489	$ 490	$ 490
Vacation payable	591	702	590	(112)	608	626	645
Current portion of long-term debt (Note 7)	14,406	4,969	3,502	(1,467)	5,097	6,336	7,430
	15,479	6,064	4,571	(1,493)	6,194	7,452	8,565
Term debt (Note 7)	27,000	46,850	39,251	(7,599)	46,459	50,284	50,160
Deferred revenue	2,135	1,562	1,453	(109)	969	665	476
Retirement allowance (Note 8a)	633	652	636	(16)	633	632	631
Environmental liability (Note 9)	420	420	420	-	420	420	420
Asset retirement obligations (Note 2)	176	-	186	186	196	206	216
	30,364	49,484	41,946	(7,538)	48,677	52,207	51,903
	45,843	55,548	46,517	(9,031)	54,871	59,659	60,468
Commitments (Note 10)							
SURPLUS							
Contributed surplus (Note 11)	390	11,425	11,425	-	11,425	11,425	11,425
Retained earnings	3,602	1,464	1,606	142	(186)	309	625
	3,992	12,889	13,031	142	11,239	11,734	12,050
	$ 49,835	$ 68,437	$ 59,548	$ (8,889)	$ 66,110	$ 71,393	$ 72,518

See accompanying notes and schedule to projected financial statements

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

PROJECTED STATEMENT OF OPERATIONS AND RETAINED EARNINGS

For the years ending December 31 *(in thousands of dollars)*	Actual 2007	Restated Budget 2008	Forecast 2008	Variance 2008	2009	2010	2011
REVENUES							
Fleet leases	$ 15,475	$ 19,951	$ 17,811	$ (2,140)	$ 21,391	$ 22,996	$ 24,223
Fuel sales	6,542	6,144	8,471	2,327	8,640	8,813	8,989
Services and parts revenue (Schedule 1)	7,308	6,301	6,741	440	8,062	6,786	6,937
Rental income	2,715	2,468	2,577	109	2,517	2,464	2,417
Amortization of deferred revenue	870	616	554	(62)	387	271	189
Gain on sale of capital assets	465	100	444	344	110	100	100
Total Revenues	33,375	35,580	36,598	1,018	41,107	41,430	42,855
EXPENSES							
Supplies	8,076	7,848	9,509	1,661	10,865	9,790	9,952
Amortization	6,500	8,448	7,858	(590)	9,018	9,991	10,974
Services	8,216	7,467	8,267	800	9,256	9,325	9,402
Salaries and employee benefits	7,012	7,643	7,127	(516)	7,774	8,048	8,235
Interest (Note 7)	874	2,469	1,716	(753)	2,388	2,790	2,981
Other	552	648	997	349	1,198	991	995
Total Expenses	31,230	34,523	35,474	951	40,499	40,935	42,539
Net income from operations	2,145	1,057	1,124	67	608	495	316
Loss on sale of land and buildings	-	-	-	-	(2,400)	-	-
Net income (loss) for the year	2,145	1,057	1,124	67	(1,792)	495	316
RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR	2,951	3,527	3,602	75	1,606	(186)	309
Transfer to City of Winnipeg - General Revenue Fund (Note 12g)	1,494	3,120	3,120	-	-	-	-
RETAINED EARNINGS (DEFICIT), END OF YEAR	$ 3,602	$ 1,464	$ 1,606	$ 142	$ (186)	$ 309	$ 625

See accompanying notes and schedule to projected financial statements

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

PROJECTED STATEMENT OF CASH FLOWS

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

NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:	Actual 2007	Restated Budget 2008	Forecast 2008	Variance 2008	2009	2010	2011
OPERATING							
Net income (loss) for the year	$ 2,145	$ 1,057	$ 1,124	$ 67	$ (1,792)	$ 495	$ 316
Non-cash items related to operations				-			
Amortization	6,500	8,448	7,858	(590)	9,018	9,991	10,974
Amortization of deferred revenue	(870)	(616)	(554)	62	(387)	(271)	(189)
Gain/loss on sale of capital assets	(465)	(100)	(444)	(344)	2,290	(100)	(100)
Retirement allowance	(22)	(3)	3	6	(3)	(1)	(1)
Accretion expense	7	-	10	10	10	10	10
Working capital from operations	7,295	8,786	7,997	(789)	9,136	10,124	11,010
Net change in working capital	(462)	9	(107)	(116)	22	(22)	(22)
	6,833	8,795	7,890	(905)	9,158	10,102	10,988
FINANCING							
Decrease (Increase) in due from City - General Revenue Fund	2,103	2,751	973	(1,778)	(422)	276	295
Proceeds from term loans	13,500	16,080	16,000	(80)	13,900	11,400	8,400
Repayment of term loans	(1,316)	(4,969)	(3,502)	1,467	(5,097)	(6,336)	(7,430)
Repayment of debt - City of Winnipeg	(5,165)	(9,738)	(11,280)	(1,542)	(97)	(33)	-
Change in contributed surplus	-	11,035	11,035	-	-	-	-
Transfer to City of Winnipeg - General Revenue Fund	(1,494)	(3,120)	(3,120)	-	-	-	-
	7,628	12,039	10,106	(1,933)	8,284	5,307	1,265
INVESTING							
Purchase of capital assets	(15,429)	(20,934)	(18,439)	2,495	(18,292)	(15,509)	(12,353)
Decrease in loan receivable	87	-	-	-	-	-	-
Proceeds from sale of capital assets	880	100	444	344	850	100	100
	(14,462)	(20,834)	(17,995)	2,839	(17,442)	(15,409)	(12,253)
NET INCREASE (DECREASE) IN CASH	(1)	-	1	1	-	-	-
CASH POSITION, BEGINNING OF YEAR	1	-	-	-	1	1	1
CASH POSITION, END OF YEAR	$ -	$ -	$ 1	$ 1	$ 1	$ 1	$ 1

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

NOTES TO THE PROJECTED FINANCIAL STATEMENTS

For the three years ending December 31, 2011
(in thousands of dollars)

1. ***Commencement of Operations***

On May 28, 2003, Council adopted the Fleet Management Agency Selection Report, that recommended the Equipment and Material Services operation of the Public Works Department commence operations as a Special Operating Agency (SOA) effective January 1, 2003.

The Agency offers economical, state-of-the-art, safe and eco-friendly fleet vehicle, equipment and other asset management services to The City of Winnipeg and other public sector organizations, in support of their service delivery.

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

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

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

Inventory

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

Capital assets

Capital assets, other than land and buildings, transferred from The City of Winnipeg on January 1, 2003, are recorded at their estimated net realizable value on that date. Subsequent acquisitions are recorded at cost. Land and buildings are stated at assessed values as of January 1, 2003 which were determined by The City of Winnipeg Property Assessment Department.

Capital assets are amortized on the basis of their cost less approximate residual value over the estimated useful life using the following rates and methods:

Buildings	4%	Straight-line
Fleet assets		
Acquired at start-up	30%	Declining balance
Purchased	Lease term	Straight-line
Equipment	10% to 30%	Straight-line

Amortization begins once an asset is placed in service.

Revenue recognition

The Agency enters into operating lease agreements to supply and maintain vehicles and equipment to lessees for specified lease periods. The Agency recognizes the monthly lease payments from the lessees as income each month. Services and parts revenue, including insurance and fuel sales, are recognized upon the completion of the work or transfer of the goods or service. Revenue from short-term rentals of vehicles or equipment is recognized as income evenly over the rental period.

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

Deferred revenue

Deferred revenue represents the value of fleet assets acquired from the City of Winnipeg at start-up. This amount is recognized as income at the same rate that the related assets are being amortized.

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

Asset retirement obligations

Asset retirement obligations are measured initially at fair value in the period in which the obligations are incurred, provided that a reasonable estimate of the fair value can be made. The retirement cost is added to the carrying amount of the related asset. In subsequent periods, the retirement cost is amortized over the useful life of the asset and the carrying value of the liability is increased to recognize increases in the liability's present value with the passage of time.

Future accounting policy changes

The Canadian Institute of Chartered Accountants ("CICA") has issued two new standards, CICA 3862, Financial Instruments - Disclosures and CICA 3863, Financial Instruments - Presentation, which enhance the abilities of users of financial statements to evaluate the significance of financial instruments to an entity, related exposures and management of these risks.

The CICA has also issued a new accounting standard, CICA 1535, Capital Disclosures, which requires the disclosure of qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and procedures for managing capital.

These changes in accounting policies, which will be adopted effective January 1, 2008, will only require additional disclosures in the financial statements.

3. *Changes in Accounting Policies*

On January 1, 2007, the Agency retroactively adopted, without restatement of prior periods, the CICA Handbook Sections 3855, Financial Instruments - Recognition and Measurement; Section 3861, Financial Instruments - Disclosure and Presentation; and Section 1530 Comprehensive Income.

According to Section 3855, all financial instruments are classified into one of the following five categories: held-for-trading, loans and receivables, held-to-maturity, available-for-sale or other liabilities. Initial measurement of financial instruments is at fair value; subsequent measurement and recognition of changes in fair value of financial instruments depends on their initial classification. The Agency's due from The City of Winnipeg - General Revenue Fund and accounts receivable are classified as loans and receivables. Accounts payable and accrued liabilities, vacation payable and long-term debt have been classified as other liabilities. Financial assets and liabilities classified as loans and receivables and other liabilities are measured at amortized cost. The Agency will recognize changes in the fair value of loans and receivables only if realized, or impairment in the value of an asset occurs. The Agency has not classified any financial instrument as held-for-trading, held-to-maturity or available-for-sale. The adoption of the new standard had no impact on the Agency's financial position or on the results of its operations.

3. ***Changes in Accounting Policies (continued)***

Section 1530 provides guidance on the reporting and presentation of comprehensive income. Comprehensive income is the change in the retained earnings of the Agency during a period from transactions and other events and circumstances from sources other than from the City. It includes all changes in retained earnings during a period except those resulting from investments by the City and distributions to the City. Other comprehensive income comprises revenues, expenses, gains and losses that, in accordance with primary sources of GAAP, are recognized in comprehensive income, but are excluded from net income. The adoption of this standard had no impact on the Agency's retained earnings as at January 1, 2007.

Effective January 1, 2007, the Agency also adopted CICA Section 1506, Accounting Changes. The new standard allows for voluntary changes in an accounting policy only when the changes result in the financial statements providing reliable and more relevant information, requires a change in accounting policy to be applied retroactively and calls for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. It includes the disclosure, on an annual basis, of a description and the impact on the Agency's financial results of any new primary source of GAAP that has been issued but is not yet effective. The adoption of the new standard did not have an impact on the Agency's financial position or on the results of its operations.

4. ***Financial Instruments***

It is management's opinion that the Agency is not exposed to significant interest, currency or credit risks arising from its financial instruments. The book value of the Agency's financial assets and liabilities approximates their fair value.

5. ***Due from City of Winnipeg - General Revenue Fund***

The City of Winnipeg operates a centralized treasury function with a single operating bank account in the General Revenue Fund. Consequently, the Agency does not have a bank account. Bank transactions are credited or charged to the "Due (to)/from" account when they are processed through the bank. Interest is credited or charged based on the City's average short-term cost of funds, which is a function of the Bank of Canada rate. As well, the Agency has negotiated an operating line of credit up to $300 thousand and a line of credit up to $10,000 thousand for short-term financing, from The City of Winnipeg.

6. ***Capital Assets***

	Net Book Value			
	Forecast 2008	2009	2010	2011
Land	$ 390	$ -	$ -	$ -
Building	2,864	-	-	-
Fleet assets				
Acquired at start-up	1,289	902	631	442
Fleet purchased	51,113	58,702	64,360	66,352
Equipment	2,568	4,754	4,885	4,461
	$ 58,224	$ 64,358	$ 69,876	$ 71,255

7. ***Debt***

	Forecast 2008	2009	2010	2011
Royal Bank of Canada (see below a)	$ 42,753	$ 51,556	$ 56,620	$ 57,590
Current portion of long-term debt	3,502	5,097	6,336	7,430
	$ 39,251	$ 46,459	$ 50,284	$ 50,160

a) The Agency has a revolving facility by way of a series of term loans in the amount of $35,000 thousand. The term loans bear a fixed rate of interest quoted by the bank at the time of each borrowing. The Agency will negotiate with the City and/or the City's bank for additional amounts.

b) On May 28, 2003, Council approved the transfer of the Equipment Replacement Reserve Fund balance at January 1, 2003 to the Agency, to be used as a source of financing for fleet replacement, thereby resulting in the termination of the Fund at January 1, 2003. During 2005, interest charges ceased. The balance decreases during the year by repayments. The balance was converted to contributed surplus at January 1, 2008.

8. ***Employee Benefits***

a) Retirement allowance

Forecast 2008	2009	2010	2011
$ 636	$ 633	$ 632	$ 631

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

The Agency measures its accrued retirment allowance obligation as at December 31 of each year. An actuarial valuation report of the obligation was prepared effective December 31, 2005. The results of this valuation were extrapolated to 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. An actuarial valuation for the Winnipeg Civic Employees' Benefits Program was made as of December 31, 2006 and indicates an actuarial surplus.

	Forecast 2008	2009	2010	2011
Pension costs allocated to the Agency	$ 393	$ 427	$ 443	$ 453

9. ***Environmental Liability***

The Agency has included an estimate of the cost to remediate fuel sites. A third party has estimated the cost at $420 thousand.

10. *Commitments*

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

	Forecast 2008	2009	2010	2011
Lease payments	$ 812	$ 841	$ 841	$ 841

11. *Contributed Surplus*

At January 1 2008, the long-term debt due to The City of Winnipeg balance of $11,035 thousand was converted to contributed surplus.

12. *Related Party Transactions*

In addition to those disclosed elsewhere in the projected financial statements, included in the Agency's projected revenues/expenses are the following transactions which occur in the normal course of operations and are recorded at the exchange amount.

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

	Forecast 2008	2009	2010	2011
a) Sales of goods and services to the City	$ 34,227	$ 39,441	$ 39,894	$ 41,379
b) Civic Accommodations Fund - Rental of space	$ 213	$ 218	$ 219	$ 219
c) Public Works Dept - Human resource services	$ 94	$ 94	$ 94	$ 94
d) Building Services Fund - Accident Reporting	$ 4	$ 5	$ 5	$ 5
e) Public Works Dept - Operator training service	$ 369	$ 624	$ 636	$ 649
f) Internal Service Dept - Business tech service	$ 64	$ 75	$ 75	$ 75
g) Transfers to General Revenue Fund - return on investment	$ 3,120	$ -	$ -	$ -

THE CITY OF WINNIPEG
FLEET MANAGEMENT - SPECIAL OPERATING AGENCY

SCHEDULE 1 - PROJECTED SCHEDULE OF SERVICES AND PARTS REVENUE

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

	Actual 2007	Restated Budget 2008	Forecast 2008	Variance 2008	2009	2010	2011
Consumables and corrective maintenance	$ 3,333	$ 2,642	$ 3,338	$ 696	$ 4,834	$ 3,473	$ 3,542
Insurance revenue	1,488	1,500	1,502	2	1,547	1,593	1,641
Power tools	656	678	681	3	699	713	728
Autopac rebate	370	377	381	4	388	396	404
Manufacturing sales	544	673	373	(300)	381	388	396
Provincial support grant	132	129	130	1	133	135	138
Other	761	302	329	27	74	76	77
Interest	24	-	7	7	6	12	11
	$ 7,308	**$ 6,301**	**$ 6,741**	**$ 440**	**$ 8,062**	**$ 6,786**	**$ 6,937**

THE CITY OF WINNIPEG
FLEET MANAGEMENT – SPECIAL OPERATING AGENCY

ASSUMPTIONS TO THE PROJECTED FINANCIAL STATEMENTS

For the three years ending December 31, 2011
(In thousands of dollars)

The projected financial statements include management's best estimates of future financial performance and incorporate the financial implications of the Agency's goals and strategies. The financial projections are estimates of the financial position, results of operations and retained earnings and cash flows, using management's assumptions that reflect the Agency's planned course of action for the three years ending December 31, 2011.

Management's judgment has been used in the assumptions and the most probable set of economic conditions. Some assumptions inevitably will not materialize and unanticipated events and circumstances may occur subsequent to the date of this projection. Therefore, the actual results achieved during the projected period will vary from the projections and the variations may be material.

The financial projections are based on current service levels, with a two percent inflationary increase, except where otherwise described in the notes to projected financial statements, or as noted in the assumptions below.

The Agency's 2008 budget was approved by Council on November 21, 2007.

REVENUE ASSUMPTIONS

Fleet Leases

Fleet leases revenue is determined based on the number and types of units assigned to customers, and the Agency's April 30, 2008 fleet replacement plan. Fleet leases revenue includes an operating component and a capital component for full service customers, and a capital component for non-maintenance customers. Interest is based on the Agency's long-term borrowing rate, and lease terms are set based on lifecycle cost management principles.

Services and Parts Revenue

Insurance revenue is based on current Manitoba Public Insurance (MPI) rates, with a three percent increase per year on the April 1st renewal date, applying the Agency's insurance mark-up.

Consumables and corrective maintenance revenue includes $1,400 thousand for the implementation of black box recorders and fuel vehicle management system.

Other revenue reflects the elimination of the 2008 insurance premium refund of $112 thousand, and elimination of the 2008 extended hour's service agreement of $110 thousand.

Fuel Sales

Fuel sales are based on two percent increases, with fuel costs based on the Agency's fuel revenue mark-up. Fuel costs are included in supplies expense.

Rental Income

External rental revenue is based on 2008 amounts with a five percent reduction per year. Internal rental revenue is based on 2008 amounts with a five percent increase per year.

Loss on Sale of Land and Buildings

The 2009 projection includes an estimated net loss on disposal of the Agency's land and buildings in the amount of $2,400 thousand, due to the planned sale of the property to the Health Sciences Centre in support of the City's Bio-Med City zone.

At the setup of the SOA, the City transferred land and buildings to the Agency at the assessed value of $1,400 thousand, with land valued at $400 thousand and buildings valued at $1,000 thousand. The Traffic Signals operation of the Public Works Department, located in one of the buildings transferred to the Agency, was allowed to remain on-site without compensation to the Agency.

During 2003 to 2007, the Agency invested $2,400 thousand in its building infrastructure, mainly for renovations to an existing structure and the addition of two new adjoining structures for its head office facility, and repair shop improvements including overhead doors, floor exhaust system, offices, and parking lots.

The selling price for the Agency's property was negotiated by the City at $2,000 thousand, with the provision that the site is cleared of all buildings at an estimated cost to the Agency of $500 thousand. The Agency has agreed to split the forecasted net proceeds of $1,500 thousand equally with the Public Works Department, due to the relocation costs the Department will incur for the Traffic Signals operations currently located on the Agency's site.

The Agency's net proceeds are projected at $750 thousand for the sale of its property. The net book value of the Agency's land and buildings on the site is projected to be $3,150 thousand at June 30, 2009, resulting in an estimated projected loss on the sale of its property of $2,400 thousand ($3,150 thousand less $750 thousand). The Agency will enter into discussions with the City to determine the mitigation of the Agency's loss on the non-arms length, City directed transaction which may include the transfer of contributed surplus.

Gain on Sale of Capital Assets

The gain on sale of vehicles and equipment is based on the Agency's fleet replacement plan and estimated market pricing.

EXPENSE ASSUMPTIONS

Supplies

Supplies expense includes $650 thousand for the purchase of black box recorders for the fuel vehicle management system.

Salaries and Benefits

Salaries and benefits are based on the estimated collective agreements for the proposed organization chart with 107 positions comprised of 1 WAPSO exempt, 31 WAPSO and 75 CUPE employees.

Services

Equipment rental costs are based on external rental revenue assumptions applying the Agency's mark-up.

Insurance expense is based on insurance revenue assumptions, applying the Agency's insurance mark-up, with the addition of insurance costs on internal rental units and units used by the Agency.

Vendor repairs expense includes $650 thousand for the installation of black box recorders and fuel vehicle management system.

Other

Facility rent for the Waverly office and garage space is based on information supplied by Civic Accommodations.

Facility rent for relocation of the Agency's main operations due to the planned sale of Agency property for the Bio-Med City zone, is estimated at $535 thousand annually.

Fuel site upgrade expense continues with $214 thousand projected for 2009 (forecast 2008 - $473 thousand).

Other expense for 2009 reflects the elimination of the 2008 charge for the review of the City's rail operations of $90 thousand.

Interest

Interest expense is based on the Agency's estimated long-term borrowing rates.

ASSET AND LIABILITY ASSUMPTIONS

Capital asset acquisitions are based on the following amounts (in thousands of dollars):

Capital Assets	2009	2010	2011
Fleet Assets	16,659	15,634	12,956
Equipment	2,632	875	398
Total	19,291	16,509	13,354

Fleet asset acquisitions above include an estimated $1,000 thousand for Winnipeg Police Services, though replacement plan budget information is unavailable at this time.

Fleet asset acquisitions are based on the April 30, 2008 fleet replacement plan. Replacements are on a one-for-one basis based on discussions with customers, and on lifecycle cost management principles.

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

Vacation Payable

Vacation payable is based on 2008 amounts with a three percent increase per year.

Term Debt

Interest rates used for these projections are based on the Agency's estimated long-term borrowing rates. Term debt repayment terms range from two to 12 years.

Cumulative borrowing authority is projected as follows:

Cumulative Borrowing Authority	2009	2010	2011
Carry forward	65,800	78,200	90,600
Annual borrowing request	12,400	12,400	9,400
Cumulative Borrowing Authority	78,200	90,600	100,000

Outstanding borrowing authority is projected as follows:

Outstanding Borrowing Authority	2009	2010	2011
Cumulative Borrowing Authority	78,200	90,600	100,000
Less:			
Carry forward borrowing	[1]52,200	72,900	85,300
Annual borrowing	20,700	12,400	9,400
	72,900	85,300	94,700
Outstanding Borrowing Authority	5,300	5,300	5,300

[1] 2009 carry forward borrowing includes cumulative borrowing of $31,200 thousand, and 2008 projected borrowing of $21,000 thousand, for a carry forward borrowing total of $52,200 thousand.

The outstanding borrowing authority of $5,300 thousand is based on the Agency's fleet acquisition carry forward total to the end of 2008, which may be required for unpredictable fleet acquisitions for changing department needs, conversion of external rentals, green fleet plan decisions, and changing lifecycle cost management decisions.

Debt/Worth Ratio

Debt/worth ratio is projected as follows:

Debt/Worth	2009	2010	2011
Ratio	4.9	5.1	5.0

It is anticipated that the debt/worth ratio may reach 4.1 during 2013, and that the maximum debt balance may reach approximately $66,000 thousand, however note that the projections are subject to change, due to the long projection period for which the assumptions are likely to change.

Contributed Surplus

At January 1 2008, the long-term debt due to The City of Winnipeg balance of $11,035 thousand was converted to contributed surplus.

APPENDIX 3 – CUMULATIVE BORROWING AUTHORITY

The Agency's historical cumulative borrowing authority is as follows:

Authority	Date of Approval	Amount
2005 City of Winnipeg Operating Budget	March 22, 2005	$6.0 million
2005 Winnipeg Fleet Management Agency Business Plan	July 27, 2005	$3.5 million
2006 City of Winnipeg Operating Budget	March 21, 2006	$5.8 million
2006 Winnipeg Fleet Management Agency Business Plan	July 26, 2006	$8.5 million
2007 Winnipeg Fleet Management Agency Business Plan	March 21, 2007	$21.5 million
2008 Winnipeg Fleet Management Agency Business Plan	November 21, 2007	$20.5 million
Total cumulative borrowing authority		$65.8 million