Winnipeg

Public Works Department

Re: SELECTION REPORT – FLEET MANAGEMENT AGENCY (SOA)

For submission to: **Alternative Service Delivery Committee**

Original report signed by: **J. Thomson, P. Eng., Director of Public Works**

Report date: **March 24, 2003**

In Camera item: ☐ **Yes** ☒ **No**

Recommendation(s):

Pursuant to the authority of the City of Winnipeg to create special service units, it is recommended that:

1. The Equipment and Material Services operation of the Public Works Department be authorized to commence operations as a Special Operating Agency (SOA), under the name of Fleet Management Agency (hereafter referred to as the Agency or FMA in this report), this change to be effective January 1, 2003.

2. Council approve an operating line of credit of up to $300,000 at the City's borrowing rate, with funds accessed through the inter-company balance with the General Revenue Fund to meet ongoing cash flow requirements of the Agency.

3. The Fleet Management Agency Operating Charter, in Appendix A be approved, including:

    a. the delegations and exemptions required by the Agency to exercise business-like practices, as outlined in Appendix I of the Operating Charter;

    b. the establishment of the Agency's Advisory Board membership and terms of appointment as outlined in Section 3 of the Operating Charter; and,

    c. the percentage of Council votes necessary to dissolve the Agency or change the Agency's Operating Charter as being 2/3 majority of the total number of members of Council,

4. The amount in the Equipment Replacement Reserve as of December 31, 2002, be transferred to the Agency, to be used as a source of financing for fleet replacement, effective January 1, 2003, and, as the purpose for which the fund was established no longer exists and the amount in the fund is no longer required for the purpose for which the fund was established, the fund be terminated.

5. The Agency be allowed to retain the Autopac Experience Rebate that is currently paid into the Insurance Reserve Fund in order to implement driver safety training courses for its customers.

6. 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

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: FMA intends to implement fleet leasing arrangements with user departments.

Policy Implications

- [ ] No
- [X] Yes

Comment: The funds that are held in the Equipment Replacement Reserve effective December 31, 2002 be transferred to the Agency on January 1, 2003 and that the Equipment Replacement Reserve be closed.

Financial Implications

- [x] Within approved current and/or capital budget
- [ ] Current and/or capital budget adjustment required

Comment: Five-year financial projections are attached.

RECOMMENDATIONS:

Pursuant to the authority of the City of Winnipeg to create special service units, it is recommended that:

1. The Equipment and Material Services operation of the Public Works Department be authorized to commence operations as a Special Operating Agency (SOA), under the name of Fleet Management Agency (hereafter referred to as the Agency or FMA in this report), this change to be effective January 1, 2003.

2. Council approve an operating line of credit up to $300,000 at the City's borrowing rate, with funds accessed through the inter-company balance with the General Revenue Fund to meet ongoing cash flow requirements of the Agency.

3. The Fleet Management Agency Operating Charter, in Appendix A be approved, including:

    a. the delegations and exemptions required by the Agency to exercise business-like practices, as outlined in Appendix I of the Operating Charter;

    b. the establishment of the Agency's Advisory Board membership and terms of appointment as outlined in Section 3 of the Operating Charter; and,

    c. the percentage of Council votes necessary to dissolve the Agency or change the Agency's Operating Charter as being 2/3 majority of the total number of members of Council,

4. The amount in the Equipment Replacement Reserve as of December 31, 2002, be transferred to the Agency, to be used as a source of financing for fleet replacement, effective January 1, 2003, and, as the purpose for which the fund was established no longer exists and the amount in the fund is no longer required for the purpose for which the fund was established, the fund be terminated.

5. The Agency be allowed to retain the Autopac Experience Rebate that is currently paid into the Insurance Reserve Fund in order to implement driver safety training courses for its customers.

6. 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.

REASON:

To report the results of the Equipment and Material Services Special Operating Agency business planning process to Council and to obtain Council approval of the recommendations to create the Fleet Management Agency as a Special Operating Agency in accordance with the *Policy and Framework for Alternative Service Delivery* and the City's authority to create special service units.

HISTORY:

On February 24, 1999, Council adopted Clause 3 of the Report of the Executive Policy Committee, dated February 17, 1999, with respect to the 1999 Alternative Service Delivery Review Agenda which identified Fleet Services as an alternative service delivery (ASD) candidate.

The Public Works Department prepared a feasibility study on the alternative service delivery options for fleet services as provided by Equipment and Material Services (EMS) which includes the associated costs and revenues and the logical steps to implement the preferred option. The study recommended that the appropriate EMS assets and functions be transferred to a Special Operating Agency.

On October 18, 2000, Council adopted Clause 1 of the Report of the Alternative Service Delivery Committee dated October 10, 2000, with respect to the Fleet Services Alternative Service Delivery Feasibility Study. The first two recommendations contained in Clause 1 of the Report stated:

1. That the Equipment and Material Services (EMS) Division of the Public Works Department prepare a Business Plan and Operating Charter for the provision of Fleet Management Services as a Special Operating Agency (SOA).

2. 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 authority to access the Equipment Replacement Reserve Fund as a financing source for the replacement of equipment.
    - The SOA have the authority to increase its customer base both internally and externally.

This selection report incorporates the direction of Council, summarizes the business plan and provides the Operating Charter for establishing the Fleet Management Agency SOA pursuant to the *City of Winnipeg Charter*.

DISCUSSION:

Fleet Management Agency is seeking Council approval to operate as a Special Operating Agency of the City of Winnipeg, as of January 1, 2003. Following Council approval, the City would have a distinct, accountable agency dedicated to fleet service delivery with the ability to provide integrated service and comprehensive fleet management expertise to its customers.

The benefits of establishing the Agency are as follows:

- A single business unit that amalgamates fleet functions across the organization and delivers light, heavy and specialty fleet requirements;
- Life Cycle Cost Management that assists the COO in making financial decisions, regarding the fleet, by considering all unit or activity costs associated with the life of the equipment;
- The transition from a pre-payment system to a pay-as-you-go system for all new fleet acquisitions that allows departments to control their annual costs through set operating lease agreements;
- An integrated fleet management system that provides reliable and valid data in all areas of the operation;

- A fully costed operation that provides transparent financial statements, quarterly reports, an annual report and an annual audit;
- A focus on customer service and the retention of existing user departments; and,
- Progress monitoring through performance management and bottom-line financial results.

Scope of Operations

Until now, fleet services were provided by the Public Works Department through the Equipment and Materials Services Division (EMS). Four separate organizational units within EMS provided fleet services using a traditional municipal model. This resulted in budgeting and equipment information that was not completely integrated and therefore, limited EMS's ability to provide comprehensive fleet expertise and life cycle management to its customers.

The proposed scope of FMA includes the following components of the former EMS:

- Company 35 (Equipment Services);
- Company 36 (Shops);
- Company 37 (Tools and Supplies) – only those assets related to engine-propelled tools; and
- Company 38 (Stores) – only the assets related to automotive parts and to fuel and fuel distribution.

Since Council's adoption of the feasibility study recommendations, EMS's activities and responsibilities have increased to include:

- *Vehicle Safety Training*: FMA proposes to take responsibility for implementing the safety training of vehicle operators.
- *Power Tools*: This includes chainsaws, quick-cut saws and lawn mowers. FMA proposes to administer the rental of tools used by departments including storage, preventative and corrective maintenance, and warranty administration. It is anticipated that this service is to be provided on a full cost recovery basis. FMA is recommending that ownership and management of power tools is transferred to the Agency.

FMA intends to manage a fleet of approximately 2,100 vehicles and equipment ranging from riding mowers to ambulances and heavy machinery. The proposed fleet includes light, heavy and specialty fleet requirements as well as power tool rentals for some City of Winnipeg departments.

Fleet Management Agency Services

FMA is proposing to offer the following fleet services:

Fleet Acquisition and Disposal Services - The acquisition service would provide all the requirements for acquiring fleet equipment, from the creation of the specifications to the tendering and inspection of the equipment when it arrives. The disposal service would identify which units to resell and directs vehicles and equipment to the appropriate disposal network resulting in the optimization of the disposal revenue.

Fleet Maintenance Services - This service would include preventative and corrective maintenance and manufacturing and fabrication requirements. The maintenance and repair of the fleet would be conducted at two major and two satellite facilities in Winnipeg.

Manufacturing and fabrication services would provide one-stop solutions to the unique needs of customers. Mobile work units would be customized while specialty equipment would be

manufactured to meet the changing needs of work crews. Services would include machining, welding, carpentry, cabinet making (wood and metal), and auto body repair.

Fuel Management Services - Fuel services would provide various types of fuel (gas and diesel – both regular and purple, kerosene, propane) to customers using a charge-back system based on consumption. Customers would have access to fuel on a 24-hour, 7-day basis at six major fueling stations operated by the FMA.

Insurance and Licensing Services - FMA would provide complete insurance and licensing services for all customers' vehicles.

Power Tools Services - This is a rental service that would provide motor driven tools to City of Winnipeg departments engaged in outdoor construction and maintenance activities. Typical tools that would be rented include chainsaws, quick cut saws and lawn mowers.

Fleet Management Agency Customers

FMA anticipates that at the inception of the SOA all existing customers of the former EMS are going to continue to utilize fleet services. The Agency has made presentations to the various user departments on the operations of the proposed SOA to confirm that they would continue to use fleet services as customers of the new Agency. The services provided to user departments are outlined in the following table.

USER	LIFE CYCLE COST MANAGEMENT SERVICES				OTHER SERVICES	
	FLEET ACQUISITION AND DISPOSAL	PREVENTATIVE AND CORRECTIVE MAINTENANCE	FUEL MANAGEMENT SERVICES	MANUFACTURING AND FABRICATION SERVICES	INSURANCE AND LICENSING SERVICES	POWER TOOL SERVICES
Public Works Department	Yes	Yes	Yes	Yes	Yes	Yes
Police	Yes	No	Yes	Yes	Yes	No
Water & Waste (Regional Operations)	Yes	No	Yes	No	Yes	Yes
Water & Waste (all other divisions)	Yes	Yes	Yes	Yes	Yes	Yes
Transit (except buses)	Yes	No	No	Yes	Yes	No
Planning Property and Development	Yes	Yes	Yes	Yes	Yes	N/A
Fire/Paramedic (Fire Trucks)	Yes	No	Yes	Yes	Yes	No
Fire/Paramedic (Ambulances and light fleet)	Yes	Yes	Yes	Yes	Yes	No
Community Services	Yes	Yes	Yes	Yes	Yes	N/A
Corporate Services	Yes	Yes	Yes	N/A	Yes	N/A
Property Assessment	Yes	Yes	Yes	N/A	Yes	N/A

FMA will continue to provide the spectrum of services currently offered by EMS to external customers (that is, customers other than City departments or City special operating agencies). However, FMA will not engage in the business of reselling new vehicles to external customers until and unless it receives Council's approval for providing this service.

Fleet Management Agency Operations

FMA would incorporate best practices found in other government Fleet SOAs (Quebec CGER, Manitoba FVA, New Brunswick MVA). This would include elements such as:

- Purchase and lease back options
- Single business unit that amalgamates fleet functions
- Marketing and customer services functions
- Sophisticated charge back system
- Integrated fleet management system
- Full cost recovery
- Fixed asset management
- Performance measurement and accountability

Life Cycle Cost Management

The feasibility study identified Life Cycle Cost Management (LCCM) as a key component of changing the current delivery of fleet operations. Life Cycle Cost Management is a cost analysis model that assists the fleet manager in making financial decisions regarding fleet equipment by considering all unit or activity costs over the life of the equipment.

Life Cycle Cost Management includes:

- Providing expert advice, recommending optimal vehicle use and equipment configuration and recommending new products and improvements;
- Supplying standard makes, models and configurations and providing incentives for users to adopt standard vehicles; and
- Offering incentives for users to rationalize their fleet size, mix, usage and costs.

FMA is proposing to make decisions regarding the maintenance and replacement of vehicles and equipment, while users make decisions regarding the type, rationalization, mix, and use of equipment as well as where the fleet would be located.

There are two main components to the fleet costing model - capital and maintenance. FMA is proposing to maximize the efficiency of these two components through full Life Cycle Cost Management employing full costing and the pricing of services at or below prevailing industry rates for a cost-competitive strategy.

It is important to delineate what the Agency would or would not be responsible for regarding size and configurations of the fleet. The Agency's responsibilities would be to assist its customers by providing expert advice on fleet that allows them to make the best economic choice for their business. Customers would benefit from being able to control their annual costs due to set financial parameters described in their operating lease agreements.

The Agency would not be able to rationalize the size and mix of a customer's fleet. Vehicles and equipment would be tied directly to work crews and work crew scheduling which are beyond the control of FMA. The Agency would not be able to impose reductions or increases in a customer's fleet. It would be the responsibility of the customer to determine the optimum size, configuration, and total cost of their fleet with technical input from FMA.

The financial projection in Appendix C is based on actual 2001 ERR contributions from departments as well as 2001 maintenance charges adjusted for inflation. Therefore, the financial model will continue to be refined/adjusted to accommodate amounts in departmental budgets. Departments will be responsible for rationalizing size and mix of their fleet within their budget constraints.

The Agency is proposing to transition from the previous pre-payment system to a pay-as-you-go system with customers entering into fleet operating lease agreements for all new fleet acquisitions. The new costing model would employ two types of leases for new fleet:

a) **Wet leases** representing full service leases including acquisition, procurement, disposal, maintenance and information management services. Wet lease rates include:

   - a capital rate component for fleet amortization and interest; and
   - an operating rate component for repairs and maintenance services, and overhead.

b) **Dry leases** which are not full service leases and include fleet acquisitions, procurement and disposal services only. Dry leases represent a capital lease rate for fleet amortization and interest.

Charges for fuel, insurance and licensing, manufacturing and fabrication, and power tool rentals would be based on a pay-as-you-go basis. Upon approval of this selection report, FMA is proposing that all City departments who are clients of the Agency would be required to purchase fuel from the Agency for a three-year period.

Equipment Replacement Reserve Fund

FMA is proposing that the funds held in the Equipment Replacement Reserve at December 31, 2002, are to be transferred to the Agency, effective January 1, 2003, and that the Equipment Replacement Reserve is to be closed.

The Agency intends to recognize the transfer of these funds as Long Term Debt and to accumulate, by individual customers, their former equity balance in the ERR as well as the additional required contributions and accrued interest.

Long Term Debt

FMA is going to require on-going long-term funding from the City to maintain and replace fleet assets. The Agency is assuming that the funds in the ERR are to be transferred over to the Agency so that they can be used for this purpose. Interest is to accrue, on the individual customer balances that will be transferred in from the ERR, at the prevailing short term investment interest rate (3.5% has been used in the projections).

Commencing in 2004, the Agency expects to self-finance capital purchases from Retained Earnings thereby reducing its reliance on the customers' fund balances transferred in from the ERR.

Purchasing

FMA is intending to comply with the City of Winnipeg's purchasing policy. As the Agency transitions to Life Cycle Cost Management, changes to the specifications within the tendering process are anticipated. All changes are expected to be within the guidelines of the existing purchasing policy.

Human Resources
FMA envisions a workplace where employees work together to provide reliable, economical and effective fleet management services. The Agency's human resource plan endorses training and development to optimize the workforce potential. FMA begins operating with 106 employees.

Staffing and classification activities are governed by collective agreements with WAPSO and CUPE. To be effective, the Agency requires the flexibility to adjust staffing levels as business dictates (details to be outlined in the annual Selection Report). Any redeployment is to be done in a manner consistent with the collective agreements and reflect the City's policies.

Organization charts, attached as Appendix B, illustrate the change in structure and complement from EMS to the Fleet Management Agency.

Information Technology

The Agency is intending to negotiate Information Technology (IT) service functions and levels of service with the Public Works Department. This service level agreement is to be finalized upon approval of the FMA SOA. The Agency intends to use the IT resources to manage information that supports the full life cycle fleet management concept.

The information and technology services available to the Agency through the Public Works Department include: business and strategic planning, business systems planning, architecture planning, project management, research, consulting services and user support. In addition, specialized application, architecture and technical services unique to its information technology environment are also included. Alternative service delivery options, where desirable, may also be investigated.

When acquiring IT architecture, the Agency is intending to be compatible with City of Winnipeg's Microsoft Windows NT Server Architecture, Windows NT Workstations, Microsoft Office and any Connexus system requirements. Until Connexus is operational organization-wide, FMA is expecting maintain linkages, as required by corporate policy, with the following systems:

- Financial Reporting System (FRS)
- Budget Preparation System (BPS)
- Employee Record System (ERS)

Support for fleet operations is to be provided by Ron Turley and Associates (RTA) fleet management information software. This is a comprehensive, commercial, off-the-shelf software package that is customizable with many user-definable features. The software provides a full range of reports on the fleet's performance.

Over the term of the business plan, systems and equipment are intended to be continually upgraded through existing and contracted resources.

Physical Asset Management

FMA is proposing to continue to deliver its services from existing maintenance facilities including the Tecumseh facility that EMS currently owns. The Agency is intending to assume ownership of the Tecumseh facility, upon the transfer, at the inception of the SOA. The Tecumseh facility is assessed at $426,000 for the land and at $692,000 for the building. FMA is expecting to continue to rent facilities from Civic Accommodations such as the headquarters at 1155 Pacific, the Waverley facilities and two satellite facilities.

FMA has made every effort to review the current space requirements and locations of its maintenance facilities to ensure the cost-effective delivery of fleet services. The guiding principle is to ensure that no customers will be further than 10 kilometres from a maintenance facility.

FMA does not anticipate any immediate changes to the current maintenance facilities. The Agency expects to prepare a long-term accommodation plan within five years to determine the costs and benefits of renovating the facilities at 195 Tecumseh and 215 Tecumseh compared to building a new facility.

Performance Measurement

The existing fleet management information system (Equipment and Materials Management System or EMMS) does not provide all the data necessary to establish a baseline for performance measurement or supply reliable information in all areas of the operation. The implementation of the Ron Turley and Associates (RTA) fleet management information system is intended to provide reliable and valid data to quantify performance measures.

FMA intends to base its overall performance on service goals and strategies and financial goals and projections. The Agency's performance will be measured against the financial targets outlined in its business plan. Bottom-line financial results are the mechanism for measuring the success of the Agency.

The following table outlines performance indicators in the areas of finance, operations, customer satisfaction and training and development.

GOAL	PERFORMANCE MEASUREMENT	MEASURE OF SUCCESSS/TARGET
Financial	• Annual financial targets as outlined in the Business Plan Selection Report	• Financial targets met and/or exceeded
Operational	• Reduce the cost of operation	• Overhead costs reduced
	• Optimize fleet maintenance asset management	• Expenditures minimized
	• Implement RTA (Fleet Management Information System) to replace EMMS	• Fleet management information system implemented
	• Meet and/or exceed productivity rates	• Initial benchmarking implemented
	• Improve fuel distribution system	• Operating costs reduced and assurance of environmental compliance provided
Customer Satisfaction	• Obtain customer satisfaction feedback	• Feedback sought and action taken
Training and Development	• Implement a comprehensive training strategy	• Strategy implemented
	• Provide cross-training opportunities	• Training provided
	• Obtain staff feedback	• Feedback sought and action taken

SOA Structure and Accountability Framework

There are three basic characteristics of an SOA that distinguishes it from a line department:

1. The identification of discrete operational units (within government departments) whose overall performance and ability to achieve results might be enhanced by SOA status;

2. The granting to these units of greater autonomy in day-to-day decision making by exempting them from certain administrative rules and reducing the amount of external involvement in detailed operations; and

3. The negotiation of performance agreements that hold the units to account more for overall performance and results.

FMA's Operating Charter incorporates elements of the three characteristics of a special operating agency and provides the operating framework and financial and organizational accountability to function as an SOA (refer to the accompanying Operating Charter).

FMA is intending to function as an agency of the City of Winnipeg. The Public Works Department is to be the host department for the Agency. FMA is to report through the CAO to the Alternative Service Delivery Committee (ASD), Executive Policy Committee (EPC) and Council. Council is to be responsible for setting policy while the Agency is responsible for implementing policy and managing the operations. The proposed reporting structure for the SOA is outlined in Section 8 of the Operating Charter (Appendix A).

FMA is also intending to inform the Standing Policy Committee on Public Works of any Agency plans, reports and proposals. Any comments received from the committee would be factored into the analyses and recommendations that are forwarded to EPC and Council.

An Advisory Board, with members selected from stakeholder groups approved by Council, would provide advice on the Agency's strategic operations. Stakeholder groups that would be considered include representatives from the City of Winnipeg unions (CUPE and WASPO), major customers and up to three representatives from the private sector. FMA is proposing that the Director of Public Works chairs the Advisory Board as the City's representative.

Financial Performance and Reporting Framework

Pro-forma financial statements are attached in Appendix C. These include a projected statement of financial position, projected statements of earnings and retained earnings, projected statement of cash flows, and projected schedule of revenues and expenses.

Within the first five years of operation, the Agency is proposing to analyze the cost of services purchased from City departments. This analysis is intended to assist in the development of future service contacts, such as for information technology and legal services, which best meet the business needs of the Agency.

Operating as an SOA, the Fleet Management Agency is intending to fully cost its operations. It is subject to an annual audit, quarterly reporting and an annual report in accordance with the Operating Charter.

Financial returns, outlined in the Agency's annual report, in excess of those outlined in the financial projections would be reviewed and the proper treatment determined by the ASD Committee. The expectations of FMA are that it is to:

- Provide a financial benefit to the City of Winnipeg beyond that of other ASD options or that of a departmental function;
- Function under generally accepted accounting principles; and,
- Be professional and business like in all operational matters.

Conditions Necessary for Success

The following are conditions central to the functioning of the Agency:

- The assumptions, outlined in the notes to the financial projections (see Appendix C), are integral to the projected goals of the Agency. Changes to these assumptions could result in significant impacts on financial and operational projections.
- The Agency requires sufficient capital to implement life cycle cost management.
- The funds that are held in the Equipment Replacement Reserve at December 31, 2002 be transferred to the Agency effective January 1, 2003 and that the Equipment Replacement Reserve be closed.
- Current departmental budgets allocated for fleet ERR payments are either spent in capital lease payments to the Agency for new fleet acquisitions or contributed to the SOA.
- All City departments that are clients of the Agency are required to purchase fuel solely from the Agency as long as they use SOA maintenance services or a minimum of a three-year period.
- The Agency is to assume ownership of the fleet of its current customers.
- The Agency is exempt from the standard City of Winnipeg spending limits for budgetary control purposes - the annual business plan outlines the Agency's budget and bottom-line accountability.
- Departments must have the authority to enter into multi-year budget commitments resulting from lease contracts with the Agency.
- In order to finance day-to-day operations, approval of an operating line of credit on the amount of $300,000 is requested.
- Long-term funding in the amount of $790,000 with no interest and no set terms of repayment is requested. This represents the value of the net assets acquired at start-up, excluding land and fleet assets.
- The Agency is seeking approval to retain the Autopac Experience Rebate in the amount of approximately $284,000 to be used to implement driver safety training courses for its customers.

Implementation

The transition to a Special Operating Agency began with the approval of the *Fleet Services Alternative Service Delivery Feasibility Study* and the implementation of the initial best practices. This transition is expected to continue throughout 2003, as all the elements of the new Agency are put into operation. After this transition period, an evaluation of the operation will be conducted with respect to the future direction of the Agency.

Conclusion

The Agency would be fully accountable for meeting the service needs of its customers in a timely, transparent and cost-effective manner. The creation of the FMA Special Operating Agency would enable it to make decisions in a business-like manner and, through ownership of the assets, optimize the use of the fleet for the benefit of City of Winnipeg.

Appendices to the Selection Report

A. Operating Charter

B. Organization Charts

C. Financial Projections

Appendix A

FLEET MANAGEMENT AGENCY

OPERATING CHARTER

Fleet Management Agency
Operating Charter

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Section 1: PREAMBLE

1.1 Background

On October 18, 2000, Council adopted the report of the ASD Committee which recommended "That Equipment and Material Services (EMS) of the Public Works Department prepare a Business Plan and Operating Charter, for the provision of Fleet Management Services as a Special Operating Agency (SOA)."

1.2 Establishment of the Agency

Equipment and Material Services (EMS) has been designated effective January 1, 2003, as a Special Operating Agency, and this Operating Charter has been approved by Council resolution pursuant to the *City of Winnipeg Charter*.

Equipment and Material Services is an amalgamation of a number of City of Winnipeg companies. When EMS is referred to in this document, it refers to the net assets of the following companies, which shall be transferred to Fleet Management Agency (FMA):

- Company 35 (Equipment Services),
- Company 36 (Shops),
- Company 37 (Tools and Supplies) – only the assets related to engine propelled tools (power tools), and
- Company 38 (Stores) – only the assets related to automotive parts and to fuel and fuel distribution

The remaining portions of Companies 37 and 38 shall remain part of the Department of Public Works.

1.3 Name of the Agency

Fleet Management Agency of the City of Winnipeg

Section 2: POLICY FRAMEWORK

2.1 Mandate

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

2.2 Goals

The goals of Fleet Management Agency are to:

- Increase customer satisfaction
- Expand fleet services across internal markets
- Increase employee satisfaction
- Implement Life Cycle Cost Management
- Move toward a self financing operation

2.3 Operating Principles

The operating principles are:

- Quality customer service
- Safety for FMA employees and users
- Financial accountability

2.4 Core Values

The core values of the organization are to be:

- Trust
- Fairness
- Accountability
- Respect
- Diversity
- Commitment to Excellence

2.5 Products and Services

The Special Operating Agency shall provide services in the following areas:

1. Acquisitions and Disposal Services
2. Fleet Maintenance Services
3. Insurance and Licensing Services
4. Fuel Services
5. Power Tools Services

2.6 Concept of Operations

The core of the SOA concept is the fair and efficient delivery of services to a diverse client base. FMA shall provide fleet management services to a number of City of Winnipeg departments. No single competitor exists that can provide the comprehensive fleet services for both light and heavy fleet through decentralized locations. FMA shall manage a fleet of approximately 2,100 units, ranging from riding mowers to ambulances and heavy machinery. Its four principal activities relate to fleet/equipment supply, maintenance support, power tools and fuel. Life Cycle Cost Management shall be the model implemented to manage the operations.

2.7 Clients/Customer Base

The customer base consists of City of Winnipeg departments and special operating agencies.

Departments and agencies that currently purchase services from EMS shall not opt out of the services provided by FMA before

January 1, 2006. An approved business plan showing net benefits to the City of Winnipeg shall be required to opt out after this period.

2.8 Fuel Services

Existing fuel customers, and City of Winnipeg departments or agencies that may subsequently become customers of the fuel services provided by FMA, shall not opt out or seek alternate arrangements for a 3 year period (the minimum leasing period) or as long as they use SOA maintenance services.

2.9 Marketing and Visual Identity

Fleet Management Agency shall undertake independent marketing, advertising and customer service activities, within the broad parameters of the City of Winnipeg visual identity guidelines.

2.10 Special Operating Agency Status

The Fleet Management Agency shall operate using accepted business practices in all financial and business dealings.

It shall be accountable for the results of business operations on the basis of the performance measures as outlined in the Selection Report.

The Chief Operating Officer (COO) shall liaise with the Director of Public Works to handle day-to-day administrative matters and to coordinate reports and responses to issues as they arise.

Section 3: ACCOUNTABILITY FRAMEWORK

3.1 Reporting Relationships

The Agency reports to the Director of the Public Works Department. Policy direction comes from Council, the Executive Policy Committee (EPC), and the Alternative Service Delivery (ASD) Committee in consultation with the Standing Committee(s). The ASD Committee assures corporate financial direction and accountability. The Chief Operating Officer shall liaise with the Director of Public Works on a day-to-day basis. An Advisory Board shall provide advice on strategic operations.

3.2 Council Responsibility

Under the *City of Winnipeg Charter* Council has final decision authority relative to the Special Operating Agency. This includes, but is not restricted to, designation of the Agency and its Operating Charter, Selection Report, and delegations of authority.

After an appropriate startup period, Council receives summary quarterly and annual reports as information to assess Agency performance.

3.3 Executive Policy Committee Responsibility

EPC, on recommendation of the ASD Committee, reviews Agency plans, reports and proposals and recommends appropriate decisions by Council. It maintains a strategic oversight role.

3.4 ASD Committee Responsibility

The ASD Committee is responsible for providing corporate and financial leadership of alternative service delivery initiatives, including Special Operating Agencies. While the Committee's overriding concern is to assess Agency financial needs and implications, and Selection Report issues, it may play a broader role in evaluating the corporate benefits delivered by the Agency within the strategic context of ASD.

3.5 Standing Policy Committee on Public Works

The Standing Policy Committee on Public Works reviews, from a policy perspective, Agency plans, reports and proposals on referral from, or in conjunction with, the review process through the ASD Committee. Its comments are factored into the analyses and recommendations forwarded to EPC and Council.

3.6 Chief Administrative Officer Responsibility

The Chief Administrative Officer (CAO) has executive management responsibility, in concert with Standing Policy Committees, to provide policy advice, program and service direction concerning the effective management, operation, and performance of the Agency.

3.7 Chief Financial Officer Responsibility

The Chief Financial Officer (CFO) directs financial expertise that assists the Agency in its formation and ongoing operations.

3.8 Department Head Responsibility

The Director of the Public Works monitors the Agency's management, operations, and performance relative to the attainment of civic goals and departmental objectives.

The Department Head advises the Chief Administrative Officer and relevant Standing Policy Committee on policy matters

concerning the effective management, operation, and performance of the Agency.

The Department Head or designate is a member of the Advisory Board. The Department Head receives and interprets the advice of the Advisory Board. The advice is used to assist the Department Head in advising the ASD Committee and Standing Committee and EPC on policy matters, and to provide guidance to the Agency.

The Department Head facilitates effective and efficient working relationships and resource sharing with other organizations within the department, as well as across City departments, to ensure congruent planning and budgeting and to achieve corporate economies and benefits.

3.9 Chief Operating Officer Responsibility

The Chief Operating Officer is accountable for the sound management of the Agency in accordance with the highest public sector standards, and ensures that the goals stated in the Selection Report are achieved.

The Chief Operating Officer is responsible for managing the Agency's planning and reporting processes. The COO provides the Advisory Board with Agency plans, summary quarterly reports, annual reports, Charter revisions, and other proposals and information required from time to time for effective management and accountability.

These plans and reports are provided, in turn, through the CAO for information/approval of the ASD Committee, in consultation with the Standing Policy Committee, EPC and Council.

The Chief Operating Officer is also an *ex officio* member of the Advisory Board.

3.10 Advisory Board

The role of the Advisory Board is to provide broad advice of the Agency's strategic operations and on changes to its mandate, structure, business practices, and finances. The Advisory Board reviews and approves the Agency's proposed plans, quarterly and annual reports, and charter revisions.

A City representative appointed by the CAO chairs the Advisory Board. Other than the Corporate ASD representative and the *ex officio* member (Chief Operating Officer), members are appointed for a two-year renewable term. Board members may be selected from various stakeholder groups approved by Council (see Appendix II). Council is advised annually of current Board members through the annual Selection Report process.

The chairperson is responsible for calling meetings, setting agendas, directing meetings, seeking advice from members. Other external resources or Agency staff may be invited to attend meetings at the request of the chairperson.

The composition of the Board may change over time as needs or circumstances warrant. All persons appointed to the Board shall

be required to file a declaration under any existing conflict of interest policy adopted by the City of Winnipeg.

The Board shall meet at least quarterly or at the call of the chairperson.

3.11 Customer Relations

The Agency is accountable to its customers in meeting their fleet service needs in a timely, quality-conscious, and cost-effective manner. The Agency embraces a service excellence ethic in all customer relations.

3.12 Corporate Relations

The Agency continues to be bound by relevant legislation, by-laws, and Council resolutions. Exemptions and delegations, (see Appendix I), are conferred through this Operating Charter by Council, to enable it to meet its mandate and business objectives.

3.13 Departmental Relations and Service Agreements

The Agency has been delegated the authority to exercise choice in the purchase of services, either internal or external to the City of Winnipeg.

The Agency shall continue to receive its current levels of service, or service levels, from other civic departments as outlined in the Selection Report. During the three year transition period, the Agency, in conjunction with the relevant civic departments, shall monitor and review all costs and utilization rates. Upon completion of a business case analysis, the Agency shall determine whether or not to enter into a service agreement with a City service provider or seek an external service provider based on best business case practices.

3.14 Delegation of Authority

Exemptions from City policies and delegations are listed in Appendix I.

Delegations allow the Agency to administer the existing policy. They are vested in the Agency's Chief Operating Officer, who may sub-delegate to facilitate day-to-day operations.

Appropriate policy directives are to be incorporated as amendments to the Charter at the earliest opportunity. The Agency is exempt from new policies and directives unless specifically directed to participate.

Section 4: PLANNING AND REPORTING FRAMEWORK

4.1 Planning and Reporting Schedule

The planning and financial reporting schedule shall be determined by the Chief Financial Officer (CFO) in consultation with the Agency's Chief Operating Officer to synchronize with the general planning, budgeting, and reporting requirements of the City of Winnipeg.

4.2 Operating Charter

An Operating Charter is a formal articulation of the function, mandate, terms, conditions, and requirements governing the operation, and defining the function and mandate of an SOA. Any proposed amendments are presented to Council for approval. The Operating Charter is a public document.

4.3 Selection Report

A summary of the annual Agency business plan, the Selection Report, must be provided to Council each year. The Agency shall participate in the broader planning process of the City of Winnipeg.

4.4 Annual Report

Subject to the City's financial reporting requirements, within 120 days following the end of the fiscal year, the Agency must prepare an annual report for Council detailing its results for the year. The report must include an analysis of operational and financial results compared to plan targets, as well as the audited financial statements of the Agency for that fiscal year.

The separate and distinct nature of the Agency's report does not preclude consolidation in the City or a departmental annual report and year-end financial statements, nor does it preclude any form of public consultation.

4.5 Quarterly Reports

Interim reports on the Agency's financial position and progress against key objectives and performance targets shall be prepared each quarter.

After an appropriate startup period, quarterly reports shall be forwarded in summary form to the CAO as information.

Section 5: FINANCIAL FRAMEWORK

5.1 Fiscal Year

The fiscal year of the Agency shall be from January 1 to December 31. Departments that are Agency customers shall be required to prepare a fleet requirements forecast as part of their business plans.

Departments that are Agency customers shall be required to prepare a fleet requirements forecast as part of their business plans.

5.2 Implementation

At an administrative level, the CAO or designate and the Agency's Chief Operating Officer shall discuss and agree on the following, as detailed in the Selection Report:

- accounting principles to be applied
- assets and liabilities (an opening balance sheet)
- periodic reporting
- information systems and technology
- long and short-term financing
- cash management and investing
- budget requirements (if any), and
- material provision agreements/contracts

As part of the management principles inherent in SOAs, budgetary expenditure controls applicable to City of Winnipeg departments do not apply. Bottom-line financial results are the mechanism for measuring the success of the Agency.

5.3 Costing and Pricing

The Agency can set and adjust its prices for any good or service provided in response to market forces. Prices shall vary depending on type of good or service, availability and volume purchased.

5.4 Financial Model

The financial model will continue to be refined/adjusted to accommodate amounts in departmental budgets. Departments will be responsible for rationalizing size and mix of their fleet within their budget constraints.

5.5 Vehicle Leasing

Lease prices offered must be based on full cost recovery for full life cycle fleet management.

This lease system shall include a monthly capital component, reflecting the value of the unit, and an operating component, reflecting usage rate that covers the expected cost of preventive maintenance. Any damages or excessive use repairs shall be charged on a pay-as-you-go basis.

The Agency shall have the right, but not the obligation to provide leasing arrangements to a customer.

Fuel shall continue to be billed on the current usage basis, and shall not be included in the operating lease.

5.6 Financing	The Agency shall have the authority to carry forward funds to be used for future operating or capital requirements.
5.7 Borrowing and Working Capital	The Agency must have access to a $300,000 line of credit secured by the City of Winnipeg at its short term borrowing rate.
5.8 Insurance Reserve Fund	The Agency shall retain the Autopac Experience Rebate, that is currently paid into the Insurance Reserve Fund, to fund driver safety training courses for its customers.
5.9 Audit	The Agency must have annual audits in compliance with legislation. Special audits and/or evaluations shall be conducted as the need arises.
5.10 Process for Vehicle Acquisitions	The Agency will implement a Process for Vehicle Acquisitions consistent with any requirements set out by the CFO.

Section 6: HUMAN RESOURCE FRAMEWORK

6.1 Staff Levels

The Agency shall adjust its staff complement within the established financial parameters as business circumstances dictate. The Agency shall utilize term and casual staffing as necessary to meet short-term workload requirements.

6.2 Compensation and Classification

The Agency's staffing and classification activities are governed by legislation, collective agreements and approved City policies and directives

.

6.3 Reward and Recognition

The Agency shall devise and implement rewards that stem from the business successes of the organization and presented on a business-case basis. Any changes to the existing rewards and recognition system shall be negotiated with CUPE and/or WAPSO. The Agency shall seek separate approval before implementing a reward system.

6.4 Training and Development

The Agency shall provide its employees with the training, career development and retraining necessary to serve its customers and respond to changing market forces and civic policies.

6.5 Performance Management

The Agency shall conduct performance appraisals annually at all levels.

The emphasis on bottom-line financial performance and operational improvements assists in formulating measurable objectives and in deciding whether objectives have been met. Performance measures attempt to capture results-based information.

This bottom-line focus and the promotion of an entrepreneurial style across the organization mean increased use of the Agency multi-year plan as a framework for assessing individual performance. The performance of the Agency's Chief Operating Officer is assessed based on achievement of targets presented in the annual Selection Report.

6.6 Labour Relations

All employees of the Agency retain their current employment status. The Agency's staffing and classification activities are governed by collective agreements with WAPSO and CUPE. To be effective, the Agency shall require the flexibility to adjust staff levels as business dictates. Any redeployment shall be done in a manner consistent with existing City policies, directives and collective agreements.

All terms of the collective agreement and union representation continue to apply subject to the terms and conditions of any supplemental agreement(s) that may be negotiated between CUPE and/or WAPSO and the City of Winnipeg.

Section 7: IMPLEMENTATION AND REVIEW

7.1 Effective Date

The effective date of Special Operating Agency status for the Fleet Management Agency is January 1, 2003.

7.2 Transition Period

A transition period of three years is required. This enables customers, stakeholders, and the Agency to adjust to the modified operating environment with minimal disruption to service delivery.

Existing budget structures and client relationships shall be maintained during this period.

7.3 Evaluation

In support of its mission, the Agency is responsible for achieving performance targets set out in its annual Selection Report.

The Agency shall be evaluated annually against these targets, and reports on its performance in the annual report.

A formal evaluation of the Agency's effectiveness shall be planned consistent with the requirements of the *City of Winnipeg Charter*.

7.4 Review and Revision of Charter

Reviews of the Agency's Operating Charter are to be carried out as required. Proposed revisions to the Charter are tabled with the ASD Committee as part of the annual business plan selection report approval process. Any revisions to the Charter are subject to Council approval through a 2/3 majority of the total number of members of Council.

7.5 Termination of Charter

The percentage of Council votes necessary to dissolve the Agency or revoke the Agency's Operating Charter are 2/3 majority of the total number of members of Council. If the Agency is dissolved or reorganized to the extent that a substantially different organization is constituted, a final report covering the period from commencement of the fiscal year to the date the Agency operations ceased or were reorganized must be submitted to Council within 120 days of reorganization or cessation of operations.

Section 8: AGREEMENT

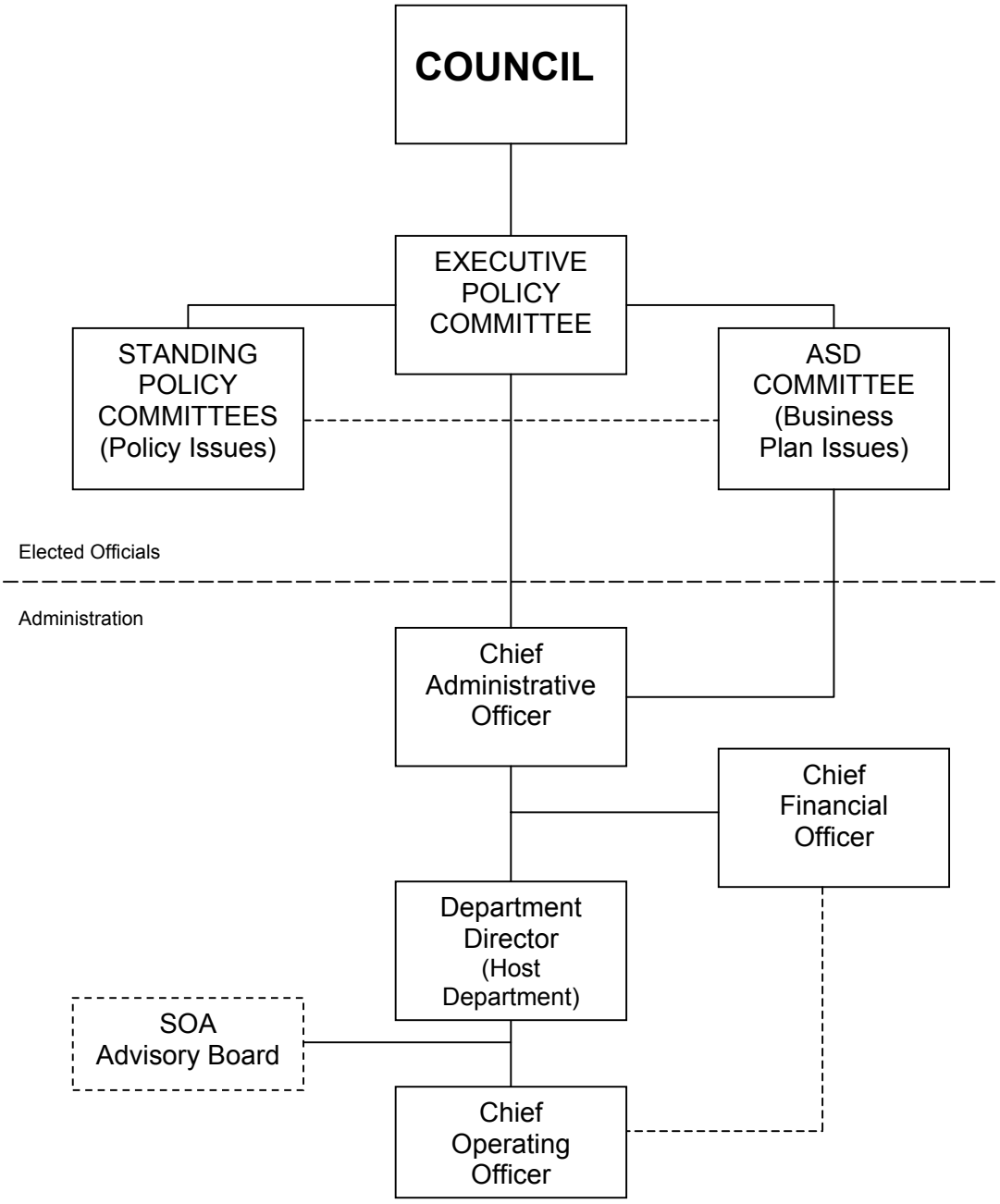
8.1 Agreement

This document represents the Operating Charter of the Fleet Management Agency as established by Council under the *City of Winnipeg Charter*.

The undersigned affirm the terms and conditions of this charter and agree to uphold its aims and objectives in support of a sustainable SOA.

Chairperson, ASD Committee	**Chief Operating Officer**
Chief Administrative Officer	**Department Head**

Dated this _____ day of _____, _____.


COUNCIL
EXECUTIVE POLICY COMMITTEE
STANDING POLICY COMMITTEES (Policy Issues)
ASD COMMITTEE (Business Plan Issues)
Elected Officials
Administration
Chief Administrative Officer
Chief Financial Officer
Department Director (Host Department)
SOA Advisory Board
Chief Operating Officer

Appendix I

Delegations and Exemptions

The following delegations and exemptions are essential to meet the financial and operational goals of the Agency and to allow it to operate in a fashion consistent with sound business practice:

a) The Chief Operating Officer has delegated authority within the jurisdiction of the Agency consistent with that of the Department Head for Public Works, with a dollar limit not to exceed $100,000 including the award of contracts.

b) The Chief Operating Officer has the authority to fix and charge prices, rates and fees for fleet leases, interest charged or paid on balances, equipment rental rates, prices for manufactured goods, petroleum products and services related to them.

c) The Agency must comply with City's Policy on Purchasing Procedures and Disposal of Surplus Supplies and the Assignment of Consultants Policy. The Agency must follow the normal rules with respect to authorization of multi-year contracts.

d) The Agency is exempt from vacancy and expenditure management processes and related global budget reductions.

e) The Agency is exempt from standard spending limits for budgetary control purposes. Bottom-line financial results are the mechanism for measuring the success of the Agency.

f) The Agency must continue to provide fleet management services to existing City client departments and agencies for a period of three years from the date of the establishment of the Agency. After that period, at the request of the client department, alternate arrangements may be made with other service providers as long as they show clear net benefits, in an approved business plan, to the City of Winnipeg for those arrangements.

g) Existing fuel customers may not use alternate sources of fuel supplies for a period of three years from the date of the establishment of the Agency.

h) When the Agency is directed to undertake "public good" initiatives, these activities shall be reimbursed by the City of Winnipeg at full cost.

i) Appropriate policy directives are to be incorporated as amendments to the Charter at the earliest opportunity. The Agency is exempt from new policies and directives unless specifically directed to participate

Appendix II

Advisory Board

Advisory Board members may be selected from stakeholder groups approved by Council. Appointment of individual members for a two-year term is delegated to the CAO. Subject to approval of the stakeholder groups by Council, the Advisory Board consists of:

- A City representative who will chair the Board,
- The Chief Operating Officer (ex officio),
- An appointee of C.U.P.E.,
- An appointee of W.A.P.S.O.,
- An Agency staff representative,
- A Public Works representative,
- The Director of Water and Waste or designate, and
- Up to three representatives chosen from the private sector.

Governance

The proposed rules and procedures for the operation of the Advisory Board shall be developed by the Fleet Management Agency and authorized by the ASD Committee. The following general concepts are understood to apply:

1. All Board members shall be eligible to vote unless there is a direct conflict with their personal interests. Board members must declare such conflicts in accordance with such City of Winnipeg conflict of interest guidelines.
2. Private sector members shall be appointed for two-year renewable terms.
3. The ASD Committee may recommend that the Chief Operating Officer appoint additional members to the Board to reflect large user groups within the City of Winnipeg.
4. If the Board is, at some future date, composed of an even number of members, in the event of a tied vote on any matter, the Chair of the Board shall cast an additional vote.

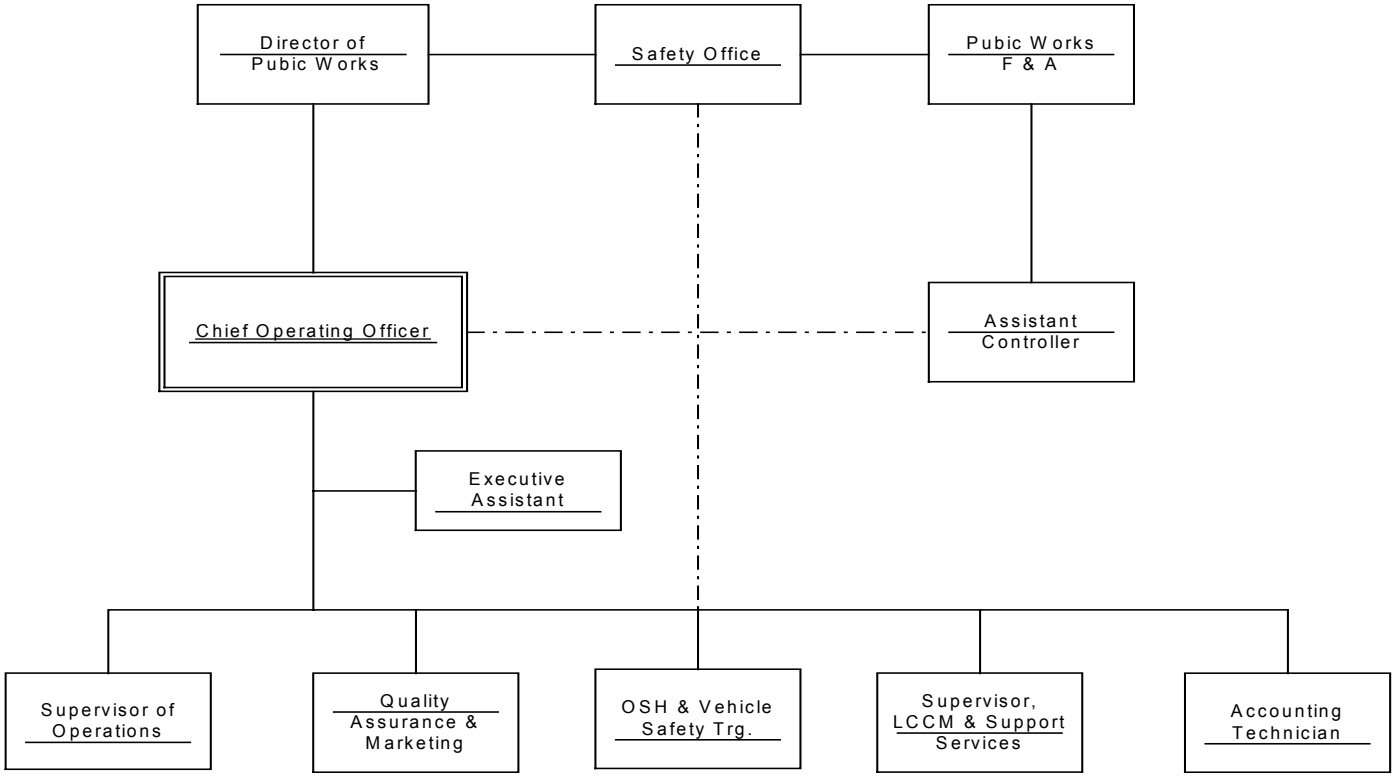
Appendix B

Fleet Management Agency

Organization Charts

Fleet Management Agency (new)

01 January 2003



Appendix C

Fleet Management Agency

Financial Projections

Five Years Ending December 31, 2007

Fleet Management Agency
Projected Statement of Financial Position
As at December 31
(In thousands of dollars)

	As at January 1 2003	2003	2004	2005	2006	2007
Assets						
Current						
Due from City of Winnipeg	$ 10,007	$ 8,261	$ 4,415	$ 147	$ 2,356	$ 2,865
Accounts receivable	70	50	51	52	53	54
Inventory	509	519	530	540	551	562
	10,586	8,830	4,996	739	2,960	3,481
Receivables	2,797	1,066	-	-	-	-
Capital assets (notes 4 & 9)	23,218	27,612	33,394	38,768	37,620	38,261
	$ 36,601	$ 37,508	$ 38,390	$ 39,507	$ 40,580	$ 41,742
Liabilities						
Current						
Accounts payable and accrued liabilities	$ 480	$ 426	$ 435	$ 443	$ 452	$ 461
Income taxes payable	-	122	148	216	161	276
Current portion of deferred revenue	-	3,074	2,287	1,863	1,504	1,471
	480	3,622	2,870	2,522	2,117	2,208
Due to City of Winnipeg	790	790	790	790	790	790
Environmental liability	420	420	420	420	420	420
Deferred revenue	20,611	13,249	10,360	7,895	6,108	4,234
Long term debt	12,904	17,888	22,238	26,278	29,355	31,976
Retirement allowance & vacation liability	970	970	970	606	606	606
	36,175	36,939	37,648	38,511	39,396	40,234
Equity						
Contributed surplus	426	426	426	426	426	426
Retained earnings	-	143	316	570	758	1,082
	426	569	742	996	1,184	1,508
	$ 36,601	$ 37,508	$ 38,390	$ 39,507	$ 40,580	$ 41,742

Fleet Management Agency
Projected Statements of Earnings and Retained Earnings
For the years ended December 31
(In thousands of dollars)

	2003	2004	2005	2006	2007
Revenue					
Fleet leases (note 7)	$ 11,398	$ 13,221	$ 15,068	$ 16,503	$ 17,753
Income from fleet transferred at start-up	4,288	3,676	2,889	2,146	1,907
Rental income	2,080	2,122	2,164	2,207	2,251
Fuel sales	4,212	4,297	4,383	4,470	4,560
Other (Schedule)	2,120	2,061	1,960	1,962	2,048
	24,098	25,377	26,464	27,288	28,519
Expenses (Schedule)					
Salaries and benefits	6,395	6,521	6,660	6,792	6,930
Services	4,589	4,673	4,757	4,842	4,929
Supplies	6,662	6,794	6,931	7,070	7,211
Amortization	5,044	5,775	6,193	6,647	7,151
Interest	463	672	834	957	1,055
Other	680	621	619	631	643
	23,833	25,056	25,994	26,939	27,919
Net earnings from operations	265	321	470	349	600
Income tax equivalency charge	122	148	216	161	276
Net earnings	143	173	254	188	324
Retained earnings , beginning of year	-	143	316	570	758
Retained earnings , end of year	$ 143	$ 316	$ 570	$ 758	$ 1,082

Fleet Management Agency
Projected Statement of Cash Flows
For the years ended December 31
(In thousands of dollars)

	2003	2004	2005	2006	2007
Increase (decrease) in cash equivalents					
Operating					
Net earnings	$ 143	$ 173	$ 254	$ 188	$ 324
Non-cash charges to operations					
Amortization	5,044	5,775	6,193	6,647	7,151
Income from fleet transferred at start-up	(4,288)	(3,676)	(2,889)	(2,146)	(1,907)
Net change in working capital other than cash assets	78	23	(299)	(58)	112
	977	2,295	3,259	4,631	5,680
Investing					
Purchase of fleet assets	(9,810)	(12,040)	(12,047)	(5,659)	(8,066)
Purchase of other assets	(117)	(119)	(122)	(124)	(127)
Fleet disposal proceeds	490	602	602	283	403
	(9,437)	(11,557)	(11,567)	(5,500)	(7,790)
Financing					
Increase in long term debt	6,714	5,416	4,040	3,078	2,619
	6,714	5,416	4,040	3,078	2,619
Net increase (decrease) in cash equivalents	(1,746)	(3,846)	(4,268)	2,209	509
Due from City of Winnipeg					
Beginning of year	10,007	8,261	4,415	147	2,356
End of year	$ 8,261	$ 4,415	$ 147	$ 2,356	$ 2,865

Fleet Management Agency
Projected Schedule of Revenue and Expenses
For the years ended December 31
(In thousands of dollars)

	2003	2004	2005	2006	2007
Revenue					
Other					
Autopac recovery and rebate	$ 1,034	$ 1,055	$ 1,076	$ 1,097	$ 1,120
Miscellaneous rentals and service	744	758	774	789	805
Other	28	28	29	29	30
Interest	314	220	81	47	93
	$ 2,120	$ 2,061	$ 1,960	$ 1,962	$ 2,048
Expenses					
Salaries & Benefits					
Salaries	$ 5,530	$ 5,640	$ 5,753	$ 5,868	$ 5,985
Employee benefits	356	363	370	377	385
Civic pension	348	355	370	377	385
Group insurance	13	13	14	14	14
Workers compensation	8	8	8	8	9
Sick leave severance	43	44	45	46	47
Dental and vision	97	98	100	102	105
	$ 6,395	$ 6,521	$ 6,660	$ 6,792	$ 6,930

Fleet Management Agency
Projected Schedule of Revenue and Expenses
For the years ended December 31
(In thousands of dollars)

	2003	2004	2005	2006	2007
Services					
Professional	$ 51	$ 52	$ 53	$ 54	$ 55
General government charges	483	483	483	483	483
Equipment rentals	2,241	2,286	2,332	2,378	2,426
Vehicle repairs and maintenance	643	656	669	682	696
Telephone	50	51	52	53	54
Permits and insurance	753	768	783	799	815
Training and development	16	16	17	17	17
Cleaning and laundry	25	26	26	27	27
Utilities	127	129	132	134	137
Maintenance	40	40	41	42	43
Janitorial and transportation	59	63	64	66	67
Office equipment servicing	82	84	86	87	89
Printing and photocopy	12	12	12	13	13
Office	7	7	7	7	7
	$ 4,589	$ 4,673	$ 4,757	$ 4,842	$ 4,929
Supplies					
Automotive parts and accessories	$ 2,619	$ 2,671	$ 2,725	$ 2,779	$ 2,835
Motive fuels and lubricants	3,650	3,723	3,798	3,874	3,951
Supplies	372	379	387	395	403
Other	21	21	21	22	22
	$ 6,662	$ 6,794	$ 6,931	$ 7,070	$ 7,211
Amortization					
Amortization	$ 5,044	$ 5,775	$ 6,193	$ 6,647	$ 7,151
Interest					
Interest	$ 463	$ 672	$ 834	$ 957	$ 1,055
Other expenses					
Equipment and furniture	$ 41	$ 38	$ 28	$ 29	$ 29
Transfer to Civic Buildings	326	266	268	273	279
Property tax	106	109	111	113	115
Business tax	24	24	25	25	26
Claims	30	31	31	32	32
Payroll tax	145	145	148	151	154
Miscellaneous	8	8	8	8	8
	$ 680	$ 621	$ 619	$ 631	$ 643

1.0 Description of Business

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 SOA's 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 conducted a feasibility study of alternative service delivery options for those services provided by Equipment and Materials Services (EMS) of the Public Works Department. 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 Fund (ERR) as a financing source for the replacement of equipment
- The SOA have the authority to increase its customer base

The Agency anticipates that it will commence operations effective January 1, 2003.

2.0 Accounting Policies

The projected financial statements are presented in accordance with Canadian generally accepted accounting principles.

2.1 Inventory

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

2.2 Capital Assets

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

Fleet Assets:

- Fleet assets acquired at inception – rates vary from 10% to 25% depending on the age of the asset, applied on a declining balance basis

- Fleet assets acquired by the Agency are depreciated straight line over the useful life of the asset which on average approximates the term of the lease. Lease terms vary based on the classifications of the assets as noted below:

  Light motorized vehicles – 5 years
  Medium (tandem) trucks and refuse packers – 9 years
  Heavy equipment – 12 years
  Specialty equipment – 10-12 years
  Trailers and support equipment – varies up to 25 years

Other Assets:

- Other equipment is depreciated straight line at the following rates:
  Buildings – 4%
  Shop equipment – 20%
  Office, computers and computer software – 30%
  Power tools – 20%

In the year of acquisition, assets are depreciated at one-half their regular rate except for assets with a cost of $1,000 or less which are expensed in the year of acquisition. The one-half rate does not apply to assets transferred over at the inception of the Agency operation.

2.3 Deferred Revenue

Deferred revenue represents the value of the City's investment in fleet assets acquired by the Agency. This amount is amortized to income yearly, at the same rate that those same assets are being depreciated, to reflect departmental use of the assets at no actual charge to the department.

3.0 Net Assets Acquired

The Agency's projected opening balances reflect the transfer of assets and liabilities from Equipment and Material Services and the Equipment Replacement Reserve fund balances as required for operations as determined below (in thousands of dollars):

Current assets	$ 10,586
Long-term receivables	2,797
Capital assets:	
Fleet	20,611
Other	1,489
Building	692
Land	426
Total Assets	**$ 36,601**
Current liabilities	$ 480
Long-term liabilities	35,695
Equity	**426**
TOTAL LIABILITIES AND EQUITY	**$ 36,601**

The opening inventory amount is estimated at $509,000, representing $334,000 in parts and $175,000 in fuel, based on the December 31, 2001 ending inventory valuation, as stated in EMS. A detailed inventory count and current valuation will be performed at December 31, 2002, and opening balances will be adjusted to those actual values.

The existing fleet assets were transferred on the basis of estimated Black Book industry valuations for equivalent assets, and historical proceeds for assets that could not be identified in the Black Book.

The value of the building and land located on Tecumseh is based on an assessment done by the City of Winnipeg for purposes of the assessment roll. The Agency has assumed that the land component of this transfer totaling $426,000 represents equity contributed by the City.

The Agency has recorded the transfer of the retirement allowance and vacation liability at inception, based on previous actuarial valuation estimates obtained, totaling $970,000. Long-term liabilities are itemized on the statement of financial position and include the estimated environmental liability relating to fuel sites transferred to the Agency, deferred revenue with respect to the fleet assets transferred and the amount due to the City relating to the balance of the assets.

4.0 Capital Assets

(In thousands of dollars):

CAPITAL ASSET	COST	ACCUM. AMORT	2003	2004	2005	2006	2007
	$	$	$	$	$	$	$
Fleet							
Fleet assets transferred in	20,121	3,798	16,323	12,647	9,758	7,613	5,705
Fleet assets acquired	9,810	796	9,014	18,804	27,399	28,716	31,576
Total Fleet	**29,931**	**4,594**	**25,337**	**31,451**	**37,157**	**36,329**	**37,281**
Other Assets							
Shop equipment	392	78	314	236	157	78	-
Office, computers and software	66	20	46	26	7	-	-
Power tools	384	77	307	230	154	77	-
Non-Power Tools & Supplies	647	129	518	388	259	129	-
821 Elgin/185 Tecumseh-Land	426	-	426	426	426	426	426
821 Elgin/185 Tecumseh-Building	692	28	664	637	608	581	554
Total Other	**2,607**	**332**	**2,275**	**1,943**	**1,611**	**1,291**	**980**
TOTAL CAPITAL ASSETS	**32,538**	**4,926**	**27,612**	**33,394**	**38,768**	**37,620**	**38,261**

5.0 Financial Projections

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 changes in cash flow, for the Fleet Management Agency, using management's assumptions that reflect the Agency's planned course of action for the five years ending December 31, 2007.

Management's judgment has been used in the assumptions and the most probable set of economic conditions, together with the hypotheses stated in note 6.0 below. The hypotheses are consistent with the purpose of this information. 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.

6.0 Hypotheses

The financial projections have been prepared based on the following hypotheses:

- That the City of Winnipeg will transfer the assets and liabilities named in Note 3.0 necessary to commence the operation.
- That the City of Winnipeg will agree to provide an operating line of credit in the amount of $300,000 to finance day to day operations.
- That the Agency will be allowed to purchase any support services required to sustain ongoing operations.
- As the SOA continues as part of the municipal government structure, the Agency is not subjected to corporate income taxation. However, in order to approximate a business model, the

financial projections of the Agency reflect a provision for income tax equivalents at a simple rate of 46% of Net Earnings from Operations.

- That the City of Winnipeg will extend long-term funding required at the date of inception totaling $790,000, with no interest and no set terms of repayment. This represents the value of the net assets acquired at start-up, excluding land, fleet assets and the ERR balance.
- That the City of Winnipeg directs that the ERR fund balances be transferred into the new Agency to provide a funding source for the fleet acquisitions by the Agency.
- That the City of Winnipeg allows departments to enter into multi-year budget commitments resulting from lease contracts.
- That all City departments who are clients of the Agency will be required to purchase fuel solely from the Agency as long as they use SOA maintenance services or a minimum of a three year period.
- That the Agency be allowed to retain the Autopac Experience Rebate to be utilized for driver safety training courses for its customers.
- That current departmental budgets allocated for fleet costs are used for capital lease payments to the Agency as well as for continuing contributions to the customers loan balance, up to a maximum of the historical ERR contributions based on 2001 actuals. This is mandatory for the three years of 2003 to 2005. However, at such time as customers capital lease payments exceed their historical ERR contributions no additional payments in excess of the capital lease payments will be required.

7.0 Revenue Assumptions

It has been assumed in these projections that customers will remain with the Agency throughout the five-year period even though customers will be given the option to leave within three years if they present a business case supporting an alternative course of action.

7.1 Lease Revenue

7.1.1 Fixed Lease Component

Lease revenue includes fixed lease rate billings for new fleet acquisitions under lease agreement. There will be no fixed fleet lease component on fleet assets transferred into the Agency at start-up. The fixed lease rate covers fixed costs including fleet amortization and interest for the term of the lease. An interest rate of 6.5% has been factored into the projections for all new leases. The lease rates for new fleet acquisitions will be based on the following:

- Total purchase cost including fabrication
- Residual values will be predetermined based on estimated value, Black Book value in the case of light fleet, and historical proceeds for assets that cannot be found in the black book
- The amortization period will be based on total life cycle costing
- Interest rates at current market as of the date of the lease (assumed to be 6.5% as noted above).

7.1.2 Variable Lease Component

Lease revenue also includes variable lease rate billings for maintenance for new fleet acquisitions under lease agreement and for the transferred-in fleet at start-up, and includes the following elements:

- Service revenue represents billings for variable rate charges for preventative maintenance costs as prescribed by the manufacturer and corrective maintenance costs, as well as a fixed rate charge for administration costs, for the new and transferred-in fleet.
- Preventative and corrective maintenance costs are charged back to customers based on projected costs, using historical data associated with the class of vehicle, and expected usage as determined in consultation with customers. The variable rate would be set for the year, based on an estimated usage represented by the number of maximum hours or kilometres. The maintenance portion of the billing would be based on the estimated monthly kilometres or hours, with adjustments for overages. This would address concerns regarding charges for rework and for lack of standardized rates for standard work. Overhead, or administration costs are based on the value of the unit in proportion to total fleet value.
- Service Revenue also includes direct charges not covered by the above, including:

  Charges for consumables such as grader and loader blades, accidents, abnormal use and abuse

  Pay as-you-go for the City of Winnipeg operated ambulance fleet (owned by the Province)

Lease revenue projections are based on the existing customer base and current service levels. Details of lease and service revenue by unit by year are summarized below (in thousands of dollars):

YEAR	FIXED LEASE REVENUE	VARIABLE LEASE REVENUE (SERVICE REVENUE)	TOTAL
2003	$ 763	$ 10,635	$ 11,398
2004	2,371	10,850	13,221
2005	4,015	11,053	15,068
2006	5,244	11,259	16,503
2007	$ 6,282	$ 11,471	$ 17,753

7.2 Income from Fleet Transferred at Start-up

The Agency will acquire approximately 2,100 units at an estimated fair market value of $20.6 million. Customers will not be billed a fixed rate for the existing fleet, as they have previously contributed to the ERR for the purchase of these fleet assets.

The income from fleet transferred at start-up will be recognized by the Agency as a charge to deferred revenue for the amount of the amortization on the transferred-in fleet assets, over their remaining life.

7.3 Rental Fleet

The Agency will assume the transfer of EMS's current third party fleet rental agreements, which are predominately short-term. Billings to customers are based on the cost of the rental fleet to the Agency. Public Works – Streets Maintenance is the primary customer for this service.

7.4 Fuel

Fuel sales to customers include a mark-up of an average of 8.5 cents per litre and are projected to increase by 2% yearly

7.5 Other Revenue

7.5.1 Autopac Recovery and Rebate Revenue

Represents billings for insurance and licensing service for the recovery of fleet insurance costs, as well as the insurance experience rebate, based on historical amounts and 2% Consumer Price Index each year. The current year experience rebate actual amount was $284,000 and has historically been included in equity in the insurance reserve fund. In future years, this amount will be retained by the SOA and utilized to cover costs of driver training and safety courses.

7.5.2 Miscellaneous rentals and service

Based on 2001 historical information applying 2% Consumer Price Index each year. The Agency also charges a specification fee to customers purchasing new fleet assets, who do not lease with the Agency. This fee is approximately $200,000 yearly and is based on historical rates.

8.0 Expense Assumptions

8.1 Salaries and Benefits

Salaries and benefits are based on the latest collective agreements for 106 employees comprised of 10 WAPSO and 96 CUPE employees.

8.2 Fuel

Fuel costs are projected to increase 2% each year, based on 6.77 million litres.

As part of a fuel site rationalization program, a number of City of Winnipeg fuel sites may be closed. Details of estimated site cleanup costs are setout in section 9.6.2 below.

8.3 General Government Charges

General government charges are estimated to be $482,630 based on the prorated share of general government charges to EMS. Early in 2003, a discussion will take place to determine actual general government charges.

8.4 Facilities Costs

Based on information supplied by Civic Accommodations, facilities rent is estimated to be $326,000 in 2003 in reference to facilities currently used by EMS. In 2004, the Agency anticipates that it will require less space at 1155 Pacific and rent costs will fall to $266,000. Thereafter rent is expected to increase at a slower rate.

8.5 Equipment Rentals

Equipment is rented by the Agency and the rental cost is charged through to customers. Short-term rental contracts of this nature do not represent long-term capital leases and do not require long-term financing.

8.6 Interest Expense

The Agency will accrue interest on its Long term debt to customers, whose fund balances will be transferred in from the ERR, based on the City of Winnipeg's rate of investment for short-term investments. This rate is expected to vary but for purposes of the projections the Agency has assumed that it will pay 3.5% on these amounts transferred in to the Agency from the ERR.

8.7 Other Expenses

On average, other expenses not identified above are based on historical amounts, and increase yearly by the Consumer Price Index (CPI) which is estimated to be 2%. Certain expenses however are stated at a value that represents management's best estimate.

9.0 Asset and Liability Assumptions

9.1 Accounts Receivables

Trade receivables are projected to be 30 days outstanding for current external customers. Billings to internal customers will be posted immediately to their accounts and therefore there should be no internal accounts receivable.

9.2 Inventory

Inventories of auto parts and fuel have been calculated based on historical levels increasing at a rate of 2% yearly for CPI (in thousands of dollars):

Inventory	2003	2004	2005	2006	2007
Parts	341	348	354	362	369
Fuel	178	182	186	189	193
TOTAL	**$ 519**	**$ 530**	**$ 540**	**$ 551**	**$ 562**

9.3 Receivables

The non-current Receivables amount represents those customer balances that were in a deficit or negative balance in the ERR. At the end of 2002 it is forecasted that three customers will be in a deficit balance in the ERR. As it is proposed that the ERR balances will be transferred over to the Agency, this will include the transfer of all customer balances regardless of whether they are in a positive or negative balance. These receivables will be recovered by the Agency from the three customers under the proposed required contribution arrangement as detailed in Hypotheses note 6.

9.4 Capital Assets

9.4.1 Fleet Assets

A majority of capital assets are comprised of fleet assets transferred-in or acquired over the next five years. Fleet assets that are projected to be acquired over the next five years are recorded by category of class.

The Agency has factored in disposals proceeds based on 5% of total dollar value asset acquisitions in each year. For purposes of the projections, the proceeds of disposition equal net book value of the assets disposed of, and therefore there is no gain or loss from disposition on the financial statements.

9.4.2 Land and Building

The Agency expects to occupy the Tecumseh site for future years until it completes an evaluation of facilities to determine if it is advantageous to consolidate operations.

9.6 Operating Line of Credit

The Agency anticipates a requirement for other borrowings to finance day-to-day operations. An operating line of credit in the amount of $300,000 is required to fund investments in accounts receivable, inventory and deposits on equipment purchases. Interest rates are based on the City's average short-term cost of funds as determined by the Money Management & Treasury Branch of Corporate Finance.

The Agency will be using the City of Winnipeg's centralized treasury function and operating bank account in the General Revenue Fund, and will not have its own bank account with outside banking institutions.

9.7 Accounts Payable and Accrued Liabilities

Trade accounts payable and accrued liabilities are to be paid in 30 days, consistent with the current City of Winnipeg policy.

9.8 Income Taxes Payable

An Income tax equivalency charge will be applied to the Net earnings from operations of the Agency at the rate of 46%. In the event that in any future year the Agency has a negative Net earnings amount the negative Income tax equivalency charge will be recorded as a future income tax asset which would represent the carry forward of unused tax losses and would be applied against future income taxes payable.

9.9 Long-term Liabilities

9.9.1 Due to the City of Winnipeg

At start-up the Agency will require long-term lending from the City of Winnipeg, with no interest and no set terms of repayment, to finance existing non-fleet capital asset acquisitions from EMS.

9.9.2 Environmental Liability

The Agency has included an estimate of the cost to remediate fuel sites. A third party study has estimated the cost at $420,000. This liability existed prior to the establishment of the SOA and as such the reflected liability is included in the opening liabilities transferred at the date of the establishment of the SOA. Any settlement in excess of this amount will be negotiated by the Agency and the City of Winnipeg.

9.9.3 Deferred Revenue

As stated above in note 2 – Accounting policies, deferred revenue will be recognized as income at the same rate that the opening fleet has been amortized.

9.9.4 Long-Term Debt

The Agency requires on-going long-term funding from the City to maintain and replace fleet assets. The Agency has assumed that the funds in the ERR will be transferred over to the Agency so that they can be used for this purpose. Interest will be accrued on the individual customer balances that will be transferred in from the ERR at the prevailing short term investment interest rate (3.5% has been used in the projections).

Commencing in 2004, the Agency expects that it will begin self-financing capital purchases from Retained Earnings which will result in reducing its reliance on the customers' fund balances transferred in from the ERR. Once the Agency is financially self-sufficient for its capital acquisition financing needs the Agency can recommend to the ASD Committee and Council, that a portion or all of the loan balances transferred in from the ERR be returned to the customers, based on their proportionate interests. The Agency does not anticipate this will be feasible in the short-term due to the forecasted capital acquisitions in 2003 to 2007.

9.9.5 Retirement Allowance & Vacation Liability

As stated in note 3 above, this liability has been estimated based on information provided by the City of Winnipeg's actuary. In 2005, as a consequence of changes in the CUPE contract, the Agency expects to pay out sick leave severance payments of $363,750 and thereby reduce its total liability to $606,250.

9.10 Equity

The Agency will be acquiring Tecumseh land and building at start-up. The land value of $426,000 will be acquired by way of equity contribution from the City of Winnipeg.

10.0 Equipment Replacement Reserve Fund (ERR)

The funds currently residing in the present ERR are critical to the success of the Agency in that they will be used to finance fleet asset acquisitions to achieve life cycle costing objectives. In this regard the funds that are held in the ERR at December 31, 2002 will be transferred to the Agency effective January 1, 2003. The Agency will recognize the transfer of these funds as Long Term Debt and will accumulate, by individual customers, their former equity balance in the ERR as well as the additional required contributions and accrued interest. With the projected balances transferred from the ERR, additional contributions and interest earned this will raise the debt owed to the customers to $31.976 million by the end of 2007.

Financial Impact Statement **Date:** December 11, 2002

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

COMMENTS:

See attached Projected Financial Statements of the Fleet Management Agency.

Manager of Finance & Administration