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BUSINESS PLAN FOR THE SALE OF SURPLUS ASSETS

Prepared for
The City of Winnipeg

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July 3, 2015

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BUSINESS PLAN HIGHLIGHTS

On May 6, 2014, the City of Winnipeg (Winnipeg) launched a “proof of concept” pilot project for the direct sale of surplus vehicles and heavy equipment. The pilot project represents a change from the current process of selling all surplus vehicles and equipment through local auctions. Based on the City of Calgary’s (Calgary) experience, Winnipeg’s pilot project expects revenue to increase between 10 to 20 per cent. The objective of the pilot project is to determine whether alternative methods for the sale of Winnipeg’s surplus assets are financially advantageous at this time.

The results of the pilot project from May 6, 2014 to February 28, 2015 proved consistent with expectations. One hundred and eleven vehicles were sold for a total of $661,800, representing a 20.55% increase over similar vehicles sold through Winnipeg’s local auction process. Due to the availability of existing staff and facility resources there were few additional costs required for the pilot project. As a result, the pilot project was able to achieve incremental income of $103,000 in 10 months.

The pilot project indicates selling vehicles and other surplus assets direct to consumers generates the greatest financial return. It is recommended Winnipeg continue the direct sale of surplus vehicles and heavy equipment. After accounting for additional staffing and facility requirements, this method will generate additional income of $24,000 annually.

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CURRENT OPERATIONAL ACTIVITIES

The City of Winnipeg owns approximately $560 million worth of physical assets, excluding infrastructure, land, and buildings. The physical assets are a combination of vehicles, equipment, inventory stock, computers, and office furnishings.

In the Materials Management Policy, “surplus supplies” means any supplies, whether new or used, which have a remaining useful life, having regard to maintenance and other costs associated with such use, including without limitation, scrap, obsolete equipment, lost or confiscated property and equipment or machinery. In this report “surplus assets” has the same meaning as “surplus supplies”.

The Materials Management Policy provides that:

> B8.1 Subject to the City of Winnipeg Charter, City By-laws and this Policy, the Chief Administrative Officer shall have authority to:
>
> (g) determine which supplies are surplus supplies;

Under Administrative Standard FM-002, this authority has been delegated to the Manager of Materials.

The Materials Management Policy further provides that:

> B8.2 The Chief Administrative Officer shall have authority to approve and award a contract where:
>
> (c) the contract is for a supply by the City.

Under Administrative Standard FM-002, this authority has been delegated to the Chief Financial Officer for contracts not exceeding $5,000,000 and to the Manager of Materials for contract not exceeding $100,000.

Under Winnipeg Fleet Management Agency’s operating charter the Chief Operating Officer has delegated authority under the Policy to:

> (f) determine the best method for disposal of Agency fleet vehicles and equipment, and supplies subject to compliance with existing City of Winnipeg contracts.

Winnipeg’s annual revenue from sale of surplus assets is:

- Approximately $700,000 from sale of surplus vehicles and equipment,
- Approximately $300,000 from sale of scrap.

The price for scrap metal is determined through a public tendering process. Relevant departments have scrap metal bins to collect material until the scrap metal contractor collects the bin. Winnipeg disposes approximately 1,400 tonnes of scrap metal per year.

Aside from scrap metal, the selling of surplus assets is performed through auction sales. The auctions are typically for bicycles, vehicles, and other mobile equipment. These auctions generate $700,000 per year, with little marketing of the auction or its items.

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DIRECT VEHICLE SALES PILOT PROJECT

City of Calgary Experience

In 1990, Calgary altered their process for disposal of surplus assets. Prior to implementing a new process Calgary recouped approximately $600,000 to $800,000 per year. Today the program brings in approximately $7 million broken down as:

- $1.5 million from direct sales,
- $3.5 million from auction / consignment,
- $2.0 million from scrap.

Calgary transitioned from auction sales to more direct sales through its web-site and storefront. A storefront allows Calgary opportunities to sell other items including computers, office furniture, and specialized equipment. The storefront also serves as a temporary storage space for those items. Selling items directly, Calgary generally attains revenues 10 to 20 percent higher than those sold through auction.

City of Winnipeg Pilot Project

In February 2014, Winnipeg decided to launch a "proof of concept" pilot project for the direct sale of surplus vehicles. The results of the pilot project would help determine the future of Winnipeg's surplus assets process. The pilot project would utilize an existing temporary person from Fleet Services and partly vacant land and building at 1500 Plessis Avenue. A project team was formed including individuals from Fleet Services, Corporate Finance, Corporate I/T, and Legal Services.

Over the following 3 months a web-site was developed, vehicles prepared for sale, processes documented, and legal matters addressed. On May 6, 2014 the pilot project officially launched with 30 vehicles available for sale to the general public. Over the following months additional vehicles were included for sale and advertising opportunities were employed.

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PILOT PROJECT RESULTS

Summary

The launch of the web-site on May 6, 2014 proved to meet its objectives. Buoyed by pent-up demand for Winnipeg assets and media coverage the web-site received over 6,000 visits the first day, with over 1,000 visits the following two days. Appointments were booked solid for the first eight business days resulting in the sale of 14 units.

Following the initial surge, web-site visits remain steady at 130 visits per day and appointments average over six per week. Both web-site visits and physical appointments increase slightly after external advertising or new vehicle listings.

From May 6, 2014 to February 28, 2015 a total of 111 units were sold for $661,800. The resultant incremental revenue of $112,822 represents a 20.55% increase over revenue generated through auctions. After additional expenses of $9,975 for items such as batteries, signage, and labour the incremental income totals $102,847.

Methodology

In order to determine the success of the pilot project it was important to determine the sales revenue which would have been generated through auction. All vehicles sold through auction over the last auction contract (2010 to 2012) were compared against Kelley blue book value of a used vehicle in “good” condition, which then formed the basis for future comparison. For example, on average a five year old Ford Crown Victoria sold through auction generated Winnipeg a return of 21.16% of Kelley blue book value.

Unfortunately due to smaller sales volume history and lack of standard blue book guides, heavy equipment values could not be determined through this method. The base comparison for heavy equipment was determined by reviewing the results of North American auctions in the past 12 months by the auction house Ritchie Bros. Auctioneers (RB). As the world’s largest industrial auctioneer, RB has the greatest history of heavy equipment sold through auction in North America. By using RB history one can compare heavy equipment of similar models, age, and hours. Winnipeg auction history for heavy equipment indicates returns of 83.97% of those sold through RB, therefore for base comparison the RB value was discounted by 16.03%.

Some Winnipeg items sold were so unique that RB did not have a similar item for comparison. For these items it was determined the direct sale was equal to the previous auction price, so as to not impact overall results. For the period May 6, 2014 to February 28, 2015 a total of ten items fell under this category.

Financial Analysis

As shown in Appendix 1, as of February 28, 2015 the pilot project generated incremental income of $102,847, representing 15.54% of total sales. Incremental revenue sales revenue totalled $112,822 with additional costs of only $9,975.

This table shows incremental revenue by type of vehicle. All heavy equipment, accessories, and equipment are filed under the class “Other”.

Financial Results by Item							
	Car	Truck	SUV	Van	Motorcycle	Other	Total
Units Sold	14	18	7	7	6	59	111
Sales Revenue	$ 25,700	$ 85,900	$ 35,900	$ 30,900	$ 30,000	$ 453,400	$ 661,800
Previous Auction Results	$ 15,268	$ 68,818	$ 31,552	$ 25,806	$ 21,732	$ 385,802	$ 548,978
Incremental Revenue (Loss)	$ 10,432	$ 17,082	$ 4,348	$ 5,094	$ 8,268	$ 67,598	$ 112,822
% Incremental Revenue	68.33%	24.82%	13.78%	19.74%	38.05%	17.52%	20.55%

The “Cars” class has the greatest percentage increase in revenue at a rate of 68.33% of previous auction results. The “SUV” class had the lowest percentage increase at 13.78%. The comparison of like vehicles is difficult due to the varying condition of each vehicle, hence the use of averages of which the accuracy increases as quantities increase.

Revenue generated from the sale of surplus vehicles is attributed to one of the following departments: Fleet Services, Police Services, Golf Services, Transit, or Fire Paramedic. The following table shows the breakdown of pilot project sales by department.

Financial Results by Department			
Department	Quantity	Sales	Incremental Revenue
Fleet Services	76	$ 510,000	$ 70,244
Police Services	28	$ 101,800	$ 26,251
Golf Services	3	$ 27,500	$ 16,568
Transit	2	$ 16,500	$ (227)
Fire Paramedic	1	$ 4,000	$ 2,500
Water & Waste	1	$ 2,000	$ (2,514)
Total	111	$ 661,800	$ 112,822

Lessons Learned

It was learned that auctions ran by RB within Winnipeg and Manitoba returned values for heavy equipment consistent with those sold anywhere in North America. Selling through other auction sites, the City of Winnipeg earned 83.97% of RB auction prices suggesting either Winnipeg equipment is in worse condition than average or Winnipeg is not receiving full potential value. One may presume the used heavy equipment market in Manitoba is smaller than many North American districts and thus advertising becomes especially critical.

Judging by web-site visits there is great value in marketing Winnipeg's new mode for selling surplus assets. It takes time to develop a following of repeat buyers and ensure all potential buyers are aware of the web-site, therefore a new initiative such as this requires significant investment in advertising in the early phases. During the pilot project, Winnipeg used free advertising through its own media releases and the Winnipeg Sun newspaper. It recently expanded its advertising to the pay web-sites Kijiji and AutoTrader.

The ability to accurately determine an item's value, especially the variety of heavy equipment owned by Winnipeg, and actively market those items requires significant skill and experience. Specialized equipment, such as pumper trucks, may have limited re-sale markets, therefore expertise in the market place and the ability to build connections and relationships is necessary. During the pilot project, a temporary employee of Fleet Services was responsible for suggesting sales prices, selling, and some marketing.

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POTENTIAL EXPANSION OF PILOT PROJECT

Financial Analysis

The pro-forma income statement in Appendix 2 indicates continuing to sell vehicles directly will provide incremental income of $23,922 for the 2015 year. Revenues are assumed to increase by the 20.55% experienced during the 10 month pilot project. This analysis assumes current staff resources are no longer available.

Many of the costs of the pilot project would not be required such as one-time fees for signage and safety devices. Nor would expenses for batteries and associated labour since vehicles for sale would be more current, not having sat in the yard for over a year. Additional costs which would be required are 1.5 FTEs of staff. This is to replace the temporary staff utilized for the pilot project. Advertising expense will be an on-going necessity of any direct sales initiative.

Expansion of Surplus Assets

While vehicles are the most valuable of Winnipeg's surplus items there is an opportunity to expand surplus assets to include tools, furniture and office equipment, computer equipment, and police property. Early estimates suggest a direct sales initiative for the items would generate additional revenue of $50,000 per year.

Facility Requirements

The pilot project has taken advantage of the empty building at 1500 Plessis Avenue where there is ample space there for the expansion of vehicles and other surplus items. However, this site is due to be sold and developed in the near future and therefore is not expected to be an option for any longer than a year.

Winnipeg currently does not have any vacant or under-used sites which could be used long-term for the direct selling of vehicles, furniture, and office equipment. There is an opportunity to sell surplus vehicles at the north-west section of 770 Ross Avenue or the 960 Thomas East Yards location. This requires grading the land and installing fencing for a total cost of approximately $50,000. It will be necessary to lease a building for the

storage and selling of furniture and office equipment, which would significantly impact potential income. Early estimates indicate the incremental sales revenue of $50,000 for furniture and office equipment will at minimum cover the facility costs.

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SURPLUS SALES OPTIONS

Status Quo

Current practices for the sale of surplus assets generate approximately $1 million in revenue. Scrap metal is sold to the highest bidder's response to a bid opportunity. Other surplus assets are sold through a local auction house. The auction house is chosen mainly as the lowest cost respondent to a bid opportunity. Continuing the status quo process for surplus sales will not generate additional revenue or income, nor will it require any additional expenses. There are no direct risks associated with this option.

Status Quo with Specialized Auction for Heavy Equipment

Heavy equipment sales account for approximately 35% and $245,000 of Winnipeg's annual surplus sales. Earlier analysis indicates returns for used heavy equipment were only 83.97% compared with similar items sold on auction sites specializing in heavy equipment. By utilizing a specialized auction site Winnipeg could generate an additional $47,000 per year less any selling fees. Assuming auction fees are 10% the annual incremental income would be $18,000.

This slight change in process could be accommodated rather seamlessly by Winnipeg with no additional costs, aside from auction site selling fees. There is low risk associated with this option. Winnipeg's equipment may be below average in value and fail to fully achieve expected revenue targets. This initiative requires very little change and could fairly easily be converted back to status quo should revenue be lower than expected.

Direct Sales of all Surplus Assets

The long-term method of direct sales requires Winnipeg to operate and maintain a storefront for the storage and selling of all surplus items excluding scrap. The direct sales method as shown through the surplus sales pilot project indicates annual incremental income of $24,000 for vehicles, while the inclusion of surplus office equipment, furniture, computers, etc. would generate minimal net income. While, the risk potential is higher this option has the greatest potential financial upside and portrays an organisational shift towards innovative solutions.

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RECOMMENDATION

The method of selling vehicles and other surplus assets direct to consumers generates the greatest increase in net income. The significant increase in net income of the pilot project was due to the use of existing staff and facilities.

In the long-term, current conditions indicate incremental income from direct selling surplus vehicles continue to generate the greatest financial return even after the additional costs for staffing and facility costs. It is recommended Winnipeg Fleet Management SOA (Fleet) begin the grading and fencing of an outdoor area for the purpose of storing and selling surplus vehicles. As required, staff should be hired for the surplus vehicles positions. Based on this recommendation the long-term net income will increase $24,000 per year. The payback period to prepare the outdoor area is expected to be 2.1 years. Fleet has the greatest knowledge and influence with respect to Winnipeg's vehicles therefore it is recommended Fleet manage the process of disposal of the Winnipeg's surplus vehicles. Maintenance Materials should continue to provide governance to the disposal process through the issuance of policies and procedures combined with regular audits to ensure expected performance and compliance.

Furniture and Equipment

It is recommended Materials Management manage the disposal of all other non-real estate surplus items. This would include all surplus furniture, equipment, construction materials, bicycles, and lost and found items. Materials Management would provide the appropriate guidance through policies and procedures while ensuring consistency to the Asset Management life cycle of assets.

Scrap Metal

The current process of selling scrap metal through a public tendering process appears to be the most efficient method to achieve maximum revenue for scrap metal. It is recommended Materials Management manage the disposal of scrap metal and provide greater governance with respect to consistency between departments, loss prevention/security measures, and tracking/reporting of sales.

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APPENDICES

Appendix 1 – Incremental Income Statement

See attached Excel file.

Appendix 2 – Direct Sales Pro-Forma Income Statement

See attached Excel file.


Appendix 1.xlsx


Appendix 2.xlsx