Selection Report 2002 - Glacial Sand and Gravel Special Operating Agency (SOA)
File GL-5.6.1 (Vol. 6)[c/r S-8 (Vol. 2)]

1. Glacial Sand and Gravel was designated as a Special Operating Agency (SOA) by Council effective January 1, 2001.

2001 was Glacial Sand and Gravel's first full year of operation as a Special Operating Agency. The major component of the Agency's operations is the Pine Ridge Gravel Pit. This pit is one of the last remaining good quality, clean, above-water sand and gravel deposits in close proximity to the City of Winnipeg. Glacial Sand and Gravel produces a variety of sand and gravel products at this location. Treated sand is produced and stockpiled annually at four Street Maintenance Yards. Limestone products are purchased from external vendors for sale to internal City of Winnipeg customers.

The hauling of all aggregate material is either carried out by the customers themselves or by the trucking firm under contract with the City of Winnipeg.

The Agency will continue to provide competitively priced, high quality aggregate products. Acting in a business-like manner, the Agency will strive to optimize the financial returns to the City of Winnipeg.

Strategic Direction

Glacial Sand and Gravel continues to build on the expectations of its stakeholders. These expectations are that it will:

1. Provide a financial benefit to the City of Winnipeg beyond the projected benefits of other ASD options.
2. Function under generally accepted financial practices.
3. Be professional and business-like in all operational matters.
4. Assist the employees in all aspects of their development through training and career planning.
5. Be a good corporate citizen.

Human Resource

Currently, Glacial Sand and Gravel has a staff establishment of ten positions. Of these positions, seven are year-round and three are seasonal (April - November). However, in 2001, operational changes were made to the Equipment and Materials Division of Public Works. As a result, Glacial Sand and Gravel lost clerical support that was previously purchased from this Division.

Staffing changes that were implemented to replace the lost clerical support were the addition of a Clerk A position and the upgrading of the Clerk B position to a Clerk C position. These staffing changes allowed for greater flexibility in vacation and sick time relief. No additional costs to the Agency have been incurred due to the staffing changes.

Information Technology

Glacial Sand and Gravel has sourced information technology support from the Public Works Department. Hardware for office operations and the weigh scale have been installed at the Pine Ridge Pit office and weigh scale. Phase one of the weigh scale software has been developed and implemented. Additional updates to the weigh scale software are currently being developed, with implementation scheduled for 2002. Material costing and inventory control software will follow.

Glacial Sand and Gravel continues to conform to the standards established by the City of Winnipeg for communications and reporting.

Equipment

A tender for a stacking conveyor has been issued for delivery in the summer of 2002. This conveyor will enable Glacial Sand and Gravel to eliminate the need for hiring a loader when processing material. In addition, this conveyor will eliminate the need to rent, on an annual basis, a stacking conveyor for the processing and stockpiling of treated sand in the Street Maintenance Yards.

The acquisition of aggregate crushing equipment was delayed in 2001 while Glacial Sand and Gravel explored different production options and sales opportunities.

Financial Highlights

The net income from 2001 operations exceeded budget projections by $79,000.00. This was the result of higher than projected sales volumes and lower than expected equipment charges.

For 2002, expenditures and revenues will be consistent with the original 2001 Selection Report. Expenditures will see an increase in equipment charges. Revenues will reflect the targeting of processed aggregate sales, resulting in less aggregates being sold but at a greater unit value.

Income tax equivalency payments for 2001 totaled $26,000.00. This amount may be negatively impacted if losses are incurred in 2002.

Pro forma financial statements have been prepared, which include a projected balance sheet, statement of earnings and retained earnings, and statement of cashflows, and are identified as Appendix “A” hereto.

Performance Measurement

2001 was the first full year of operation for Glacial Sand and Gravel as an SOA. The Agency was able to begin establishing measures for its operations. The following table outlines the status of performance measures for four measurable performance goals.

GOAL	PERFORMANCE MEASUREMENT	MEASURE OF SUCCESSS/TARGET	STATUS (as of Dec. 31, 2001)
Financial	Quarterly financial targets as outlined in the Selection Report	To meet and/or exceed	Exceeded
	Budgeted net income as per Selection Report projections	To meet and/or exceed	Exceeded
Operational	Expand volume of materials produced at Pine Ridge location	To meet and/or exceed	As outlined in Note 6 of the financial projections
	Increase overall Agency volumes	To meet and/or exceed	As outlined in Note 6 of the financial projections
	Implement a management information system	System installed	Stage One of the system developed
	Meet and/or exceed productivity rates	Initial benchmarking required	To be developed
Customer Satisfaction	Obtain customer satisfaction feedback	Feedback and action taken	To be implemented
Training and Development	Implement a comprehensive training strategy	Strategy implemented	Strategy implemented
	Provide cross-training opportunities	Strategy implemented	Cross training now provided on an ongoing basis
	Obtain staff feedback	Feedback and action taken	To be implemented

Advisory Board

The role of the Advisory Board is to provide advice on the Agency's strategic operations and on changes to its mandate, structure, business practices, and finances.

The Advisory Board is comprised of eight members; four City of Winnipeg employees, one CUPE Local 500 executive representative and three business representatives.

Advisory Board Members

Jim Thomson, P. Eng	Director of Public Works
David Jackson C.E.T.	Chief Operating Officer
Bruce McPhail P. Eng	CAO Representative
Jeff Laurent	Employee Representative
Jim Husiak, C.A.	Local 500 Representative
Bob Morris (retired)	Business Representative
Patrick Payne (President, Malibu Homes)	Business Representative
Ed Bruning (I.H. Asper School of Business)	Business Representative

The Glacial Sand and Gravel Operating Charter stipulates that a Selection Report (summary of the annual business plan) will be submitted to Council each year.

Report of the Alternate Service Delivery Committee dated April 9, 2002

The Alternate Service Delivery Committee recommends:

I. That the 2002 Selection Report for the Glacial Sand and Gravel Special Operating Agency be approved.

II. That the Proper Officers of the City be authorized to do all things necessary to implement the intent of the foregoing, including the execution of any documents related thereto.

Appendix "A" referred to in Clause 1 of the Report of the Alternate Service Delivery Committee dated April 9, 2002

Appendix A: 2001-2006 Financial Projections

Glacial Sand and Gravel – Special Operating Agency

Financial Projection

Five Years Ending December 31, 2006

GLACIAL SAND AND GRAVEL - SPECIAL OPERATING AGENCY
PROJECTED BALANCE SHEET
DECEMBER 31

	Unaudited 2001 $	2002 $	2003 $	2004 $	2005 $	2006 $
ASSETS						
Current						
Due from City of Winnipeg - General Revenue Fund	147,623	91,518	105,695	242,717	392,922	729,685
Accounts receivable	271,273	162,147	175,782	190,205	195,065	207,755
Inventory	144,112	90,600	90,600	90,600	90,600	90,600
Prepaid expenses	83,461	-	-	-	-	-
Future income tax asset	-	-	-	-	-	-
	646,469	344,265	372,077	523,522	678,587	1,028,040
Capital Assets	3,965,162	4,967,997	4,739,872	4,507,854	4,270,952	4,031,052
	4,611,631	5,312,262	5,111,949	5,031,376	4,949,539	5,059,092
LIABILITIES						
Current						
Accounts payable and accrued liabilities	311,393	88,360	91,128	92,533	94,364	95,039
Income taxes payable	26,224	(2,495)	30,882	128,458	245,108	418,870
Rehabilitation payable	82,496	-	-	-	-	-
Vacation	30,360	30,360	30,360	30,360	30,360	30,360
Current portion of long-term debt	50,885	275,639	294,099	337,255	268,863	141,110
	501,358	391,864	446,469	588,606	638,695	685,379
Retirement allowance	82,000	82,000	82,000	82,000	82,000	82,000
Long-term debt	3,997,490	4,841,328	4,547,228	4,209,973	3,941,111	3,800,000
	4,580,848	5,315,192	5,075,697	4,880,579	4,661,806	4,567,379
Retained earnings (deficit)	30,783	(2,929)	36,252	150,797	287,734	491,713
	4,611,631	5,312,262	5,111,949	5,031,376	4,949,539	5,059,092

See accompanying notes to the financial projections.

GLACIAL SAND AND GRAVEL - SPECIAL OPERATING AGENCY
PROJECTED STATEMENT OF EARNINGS AND RETAINED EARNINGS
YEAR ENDED DECEMBER 31

	Unaudited 2001 $	2002 $	2003 $	2004 $	2005 $	2006 $
REVENUE	2,677,278	1,801,636	1,953,136	2,113,386	2,167,385	2,308,385
COST OF SALES	1,644,278	837,456	868,774	904,147	929,304	956,907
GROSS PROFIT	1,033,000	964,180	1,084,362	1,209,239	1,238,081	1,351,478
EXPENSES						
Bank charges and interest	1,836	9,429	5,874	1,994	1,759	1,794
Depreciation - property and equipment	27,463	158,250	153,525	150,218	147,902	142,500
Selling, general and administrative	683,374	526,330	537,719	549,336	561,185	573,271
Interest on long-term debt	263,320	332,603	314,686	295,570	273,648	256,172
	975,993	1,026,612	1,011,804	997,118	984,494	973,737
EARNINGS (LOSS) BEFORE INCOME TAXES	57,007	(62,432)	72,558	212,121	253,587	377,741
PROVISION FOR INCOME TAX EQUIVALENTS	(26,223)	28,719	(33,377)	(97,576)	(116,650)	(173,762)
NET EARNINGS (LOSS) FOR THE YEAR	30,784	(33,713)	39,181	114,545	136,937	203,979
RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR	-	30,784	(2,929)	36,252	150,797	287,734
RETAINED EARNINGS (DEFICIT), END OF YEAR	30,784	(2,929)	36,252	150,797	287,734	491,713

See accompanying notes to the financial projections.

GLACIAL SAND AND GRAVEL - SPECIAL OPERATING AGENCY
PROJECTED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31

	Unaudited 2001 $	2002 $	2003 $	2004 $	2005 $	2006 $
Cash flows from operating activities						
Cash receipts from customers	2,525,005	1,910,761	1,939,500	2,098,964	2,162,525	2,295,694
Cash paid to suppliers and employees	(1,992,241)	(1,562,332)	(1,334,998)	(1,372,273)	(1,401,417)	(1,433,896)
Long-term interest paid	(263,320)	(332,603)	(314,686)	(295,570)	(273,648)	(256,172)
	269,444	15,827	289,816	431,121	487,460	605,627
Cash flows from finanancing activities						
Repayment of long-term debt	(24,625)	(50,885)	(275,639)	(294,099)	(337,255)	(268,863)
New long-term debt incurred	-	1,119,477	-	-	-	-
	(24,625)	1,068,592	(275,639)	(294,099)	(337,255)	(268,863)
Cash flows from investing activities						
Investment in capital assets	(13,835)	(1,224,885)	-	-	-	-
Prepayment for future capital purchases	(83,461)	83,461	-	-	-	-
	(97,296)	(1,141,424)	-	-	-	-
Net Cash Inflow (Outflow)	147,523	(57,005)	14,177	137,022	150,205	336,764
Due From (To) City of Winnipeg, Beginning of Year	-	147,523	90,518	104,695	241,717	391,922
Due From (To) City of Winnipeg, End of Year	147,523	90,518	104,695	241,717	391,922	728,686

Notes to the Financial Projection
For Five Years ending December 31, 2006

1. 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 (SOAs) as one of the five strategic initiatives needed to create a more affordable and fundamentally better Civic Government. On September 24, 1997, Council adopted the strategic direction with regard to SOAs identified in the report entitled "Special Operating Agencies Initiative." Consistent with the foregoing process, Equipment and Material Services of the Public Works Department prepared a report that outlined all options for alternate service delivery. This report identified the Special Operating Agency option as the financially most viable option. On February 23, 2000, Council directed Public Works to prepare a business plan based on the SOA recommendation. On February 28, 2001 Council approved Glacial Sand and Gravel to commence SOA operations, retroactively effective January 1, 2001.

The SOA deals in three primary products:

1.) Sand and gravel products which are mined from the Pine Ridge and Transcona locations;
2.) Crushed limestone products which are purchased for internal City of Winnipeg users; and
3.) Treated sand which is produced for City of Winnipeg usage.

2. Accounting Principles

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

Product Inventory
The inventory of products manufactured and stockpiled at the Pine Ridge Pit will be, at the time of the SOA start-up, stated at the lower of cost and net realizable value.

Equipment and Structures
Equipment and structures are recorded at cost. Assets will be depreciated by depreciating them over the estimated useful life of the asset using the following annual rates:

Computers	30%
Buildings	4 – 5%
Heavy Equipment	10 years

3. Assets Acquired

The agency acquired equipment and structures previously owned by the Primary Materials Branch for at a cost of $277,000. Assets totaling $14,000 were purchased during the year. The Agency plans to acquire an additional $1,224,900 of assets including $64,000 for computer equipment and systems and $1,160,900 for machinery. All of the above will be financed via long-term debt from the Equipment Replacement Reserve, repayable over a 5 year period at an interest rate of 6.5% (the City of Winnipeg long term borrowing rate).

The City and the SOA have determined, and mutually agreed, that the value of the Pine Ridge Pit is $3,800,000, and this value has been placed on the SOA balance sheet along with a similar amount in long-term debt. Interest has been paid at a rate of 6.5%. Principal will be repaid at a mutually agreed upon date in the future, consistent with Council decision in this regard.

4. Financial Projections

This financial projection is an estimate of the financial position, results of operations, and change in cash flow for the operation of Glacial Sand and Gravel Special Operating Agency, using management's assumptions that reflect the Agency's planned course of action for the five years ending December 31, 2006.

These projections are based on the SOA operating as a self-contained business unit, including all costs required to support its operations. Cost categories considered and included are: human resource, operations and maintenance, facility, capital and associated debt, and overhead. These costs represent a full costing model.

Management's judgment has been used in the assumptions and the most probable set of economic conditions, together with the hypothesis stated in note 5 below. The hypotheses are consistent with the purpose of the information, but are not necessarily the most probable in management's judgment. Since assumptions inevitably will not materialize and unanticipated events and circumstances may occur subsequent to the date of this projection, the actual results achieved during the projected period will vary from the projections and the deviations may be material.

5. Hypothesis

The financial projection has been prepared based on the following hypothesis:

a) That the SOA will be allowed to purchase any support services required to sustain on-going operations
b) As the SOA continues as part of the municipal government structure, the entity is not subjected to corporate income taxation. However, in order to approximate a business model, the financial projections of the entity reflect a provision for income tax equivalents at a rate of 46%, payable to the City of Winnipeg. In addition, future income tax assets which represent the carry forward of unused tax losses have been included for illustrative purposes. These are utilized in future years to offset income tax equivalents payable. No future income tax liability has been recorded as the assumption has been made that depreciation/depletion for accounting purposes approximates capital cost allowance for taxation purposes.
c) That the City of Winnipeg may extend an operating loan and provide long term lending sufficient for the Agency to continue operations with interest charged at 6.5%.
d) According to the annual business plan projections, a portion of the SOA earnings be reinvested into the SOA.
e) Access to the Equipment Replacement Reserve as a source of funding for equipment and machinery purchases.

6. Assumptions - Revenue

Sale dollars are based on current circumstances and information from earlier studies performed by reputable industry experts. All information is reflected FOB pit.

Sales - Dollars	**2001**	**2001 (Actual)**	**2002**	**2003**	**2004**	**2005**	**2006**
Pine Ridge	988,800	1,334,407	988,800	1,140,300	1,258,800	1,312,800	1,453,800

Transcona	83,500	0	167,000	167,000	208,750	208,750	208,750
Limestone	164,586	588,850	164,586	164,586	167,586	164,586	164,586
Treated Sand (Pine Ridge**)**	481,250	784,020	481,250	481,250	481,250	481,250	481,250
Total	1,718,136	2,677,277	1,801,636	1,953,136	2,113,386	2,167,386	2,308,386

7. Assumptions - Expenses

Note: Unless separately disclosed, all non-material expenditures have assumed a 2% inflationary increase each year.

a) Salaries and employee benefits

The SOA expects to operate with the following staff levels over the next five years:

- WAPSO 2
- CUPE 10

CUPE staffing includes five full-time and five season employees. Employee benefits are estimated to be 18% of total gross salaries.

b) Professional and Consulting Services

The SOA will budget $4,000 annually toward the purchase of outside professional and consulting services, such as quality control and inventory control.

c) Audit Fees

The SOA expects to pay $6,800 annually towards audit fees.

d) Automobile Allowances

Automobile allowance expenses will be incurred by two staff members.

e) Pit Management Information Technology

The SOA has budgeted $75,000 towards the purchase of a pit management hardware and software system and subsequent implementation and training. To date, $11,000 of this amount has been spent.

f) Accommodations

The SOA has budgeted $12,000 annually for the lease of a trailer to house office support staff located at the Pine Ridge Gravel Pit.

g) Telephone Services

An additional communication service expense of $10,000 has been budgeted for to provide wireless connection to the Pine Ridge Gravel Pit location.

h) Advertising/Sales Promotion

The SOA expects to spend $12,000 in advertising and promotion annually.

i) Training

The SOA expects to incur costs of $8,600 annually in addition to the Information Technology training budget.

j) Depreciation

Depreciation is based on rates identified in Note 2.

k) Depletion

Pit depletion will be charged at a rate of 20¢ /tonne for the Pine Ridge location.

l) Administrative Charges

The SOA expects to purchase administrative services from the Public Works Department. Included in these costs are fees for finance, human resources and information technology, totaling $58,400 annually.

m) Interest

Interest will be paid at an annual rate of 6.5% for its long term debt and operating line of credit in accordance with Notes 8 g) and h). Interest payments on the value of the pit property will be made to the City from the Agency. These payments will be directed to infrastructure renewal in The City of Winnipeg; and these contributions will be recognized in the annual capital budget as a separate line item "Contribution to Capital from Glacial Sand and Gravel".

n) Other Governmental Charges

Payments for the Provincial Rehabilitation Levy of 10¢/tonne and the Rural Municipality of Springfield's Aggregate Mining Levy and Road Maintenance Levy of 6.8¢/tonne will be expensed on an annual basis. The Provincial Rehabilitation Levy extinguishes the SOA from further site restoration obligations.

o) Miscellaneous Charges

General Government charges of $57,000 annually have been added to projected costs for 2002-2006. These costs were not envisioned; nor were they included in the Selection Report financial projections previously approved by Council. Amounts have been calculated based on historical activity of the Primary Materials branch, as operated under the Equipment and Material Services division.

8. Assumptions – Assets and Liabilities

a) Cash on hand

Petty cash of $1,000 will be available for incidental expenditures.

b) Accounts Receivable

Accounts receivable have been calculated on the basis of 1 month of sales being outstanding at year-end. As a result, 9% of revenues have been shown as the receivable balance. The SOA has budgeted $20,000 annually to cover outstanding accounts where payment is not ready.

c) Gravel pit asset

The agency has purchased the gravel pit asset at a value of $3,800,000. It is being financed as long-term debt from the City of Winnipeg at an annual rate of 6.5%. The asset is being depleted as outlined in Note 7 k).

d) Property and equipment

The agency purchased assets in use from the City of Winnipeg at fair market value. Other assets will be purchased in accordance with Note 3.

e) Accounts payable and accrued liabilities

Accounts payable will be paid on the basis of 30-day terms and it has been assumed that accounts payable will be approximately 7% of eligible expenses.

f) Retirement allowance and vacation liability

Retirement allowance has been valued in accordance with actuarial estimates of future liability.

g) Due to City of Winnipeg

In the event that the Agency requires short-term financing in the form of an operating line of credit, funds may be borrowed from The City of Winnipeg Idea Bank of up to $400,000. Interest will be paid to the Idea Bank at a rate of 6.5%.

h) Long-term Debt

Debt for property and equipment purchases will total $1,484,370 and will be obtained from the Equipment Replacement Reserve at an interest rate of 6.5% repayable over a 5 year period. Debt taken for the purchase of the gravel pit in the amount of $3,800,000 will incur interest charges at 6.5% and is paid to the City of Winnipeg.

9. Long-term Debt

Long term debt at December 31 of the following years consists of the following:

	2002	2003	2004	2005	2006
Debt (interest rate 6.5%)	$ 5,116,967	4,841,328	4,547,229	4,209,974	3,941,111
Less: Current Portion	$ 275,639	294,099	337,255	268,863	141,111
Long-term Portion	$ 4,841,328	4,547,229	4,209,974	3,941,111	3,800,000
$3,800,000 in debt for the Pine Ridge Pit has no fixed term of repayment (see Note 3)					

10. Related Party Transactions

The Special Operating Agency's transactions with its related company (City of Winnipeg) are carried out in the ordinary course of business and consist mainly of the sale of aggregate materials (sand and gravel) and the purchase of administrative services, material from the Transcona Pit at $ .25 per tonne, and the payment of interest on long-term debt.

Sales, purchases and interest on long-term debt recorded at market values for the years ended December 31, consist of the following:

	2002	2003	2004	2005	2006
Sales	$ 871,436	871,436	871,436	871,436	914,636
Purchases	$ 83,386	84,553	91,995	93,209	94,449
Interest on Long-term Debt	$ 332,603	314,686	295,570	273,648	256,178