

10.0 BUSINESS PLAN

Four scenarios were developed for comparison purposes that the City of Winnipeg potentially faces regarding their recreational facilities. These are **Scenario 1**- Keep the current inventory of facilities and raise the standard of care to “managed care”; **Scenario 2** – Keep the current inventory and continue the same level of funding as is currently applied; **Scenario 3** – Implement the recommended strategic plan and raise the standard of cares for all facilities (old and new) to “managed care”; and **Scenario 4** – Retain all facilities, build new facilities and raise the standard of care to “managed care”.

The business case analysis includes total payments, annual payments, net present value (NPV), and requirement for new financing. The following table summarizes the results for the different scenarios. The following sections provide further detail for each scenario and will outline the various assumptions and distinctions between the scenarios.

For sake of convenience the definition of managed care is reprinted as follows:

Managed Care

The level of service recommended for the ongoing preservation of the City’s recreation, leisure and library service infrastructure is defined as “managed care.” The term managed care is derived from a maintenance hierarchy developed by APPA: The Association of Higher Education Facilities Officers, a leading authority in the subject of asset management. The recommended facility maintenance operating budget (not including utilities) under a managed care scenario is 3.5% of Current Replacement Value (CRV), with a corresponding facilities condition index (FCI) of between 0.10 and 0.20. The latter indicator means that the amount of deferred maintenance must not be greater than 20% of the current replacement value in order for the managed care funding level to be effective. The managed care level of funding is consistent with other jurisdictions in Canada for recreation, leisure and library facilities.

Managed care is actually one of five maintenance levels and is a maintenance level 3. Maintenance level 1 by comparison is referred to as a Showpiece Facility. Under this maintenance level, the average FCI is less than 0.05 and the recommended funding level is greater than 4.0% of CRV. Although the funding level (>4.0%) does not appear to be significantly greater than the proposed 3.5%, the key is that the facility was not allowed to deteriorate. A facilities condition index of less than 0.05 represents a “nearly new” condition.

At the other end of the spectrum is Level 5 Funding or Crisis Response. This level of funding is characterized by facility maintenance operating budgets of less than 2.5% and a facilities condition index of >0.50. In Crisis Response mode, equipment and building components are routinely broken and inoperative. Normal usage and deterioration continues unabated, eventually leading to forced closure or complete replacement of the facility as they cannot meet present needs. Under Crisis Response, repair is basically instituted for life safety issues only.

A Level 4 Funding Level is classified as Reactive Management. In a Reactive Management Scenario, the facility maintenance operating budget ranges from 2.5% to 3.0% of CRV with the

average FCI in the .30 to .49 range. Under this scenario, many systems are unreliable and in constant need of repair. Backlog of repair needs exceed resources.

The current City portfolio has an average FCI in the Reactive Management range with maintenance operating budgets in the Crisis Response range. The end result is that facilities will continue to deteriorate at an accelerating rate to the point where forced closure or emergency replacement become the norm unless funding levels are increased immediately. As such, a major infusion of capital is required in the first five years (estimated at 70% of the identified preservation needs) so that the managed care level of funding is effective.

Table 4 Summary of Total Payments, Annual Payments, NPV, and New Financing

	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Total Payments				
Preservation Costs	160,890,000	-	110,160,000	160,890,000
New Construction + Demolition Costs	-	-	139,660,000	139,340,000
Parking/Reinvestment/Replacement	183,420,000	-	144,170,000	183,420,000
Rainy Day Fund	-	522,630,000	-	-
Annual Payments				
Operating Costs	20,490,000	22,790,000	19,020,000	25,320,000
Managed Care				
Years 1-40, Current Facilities	16,750,000	5,800,000	12,380,000	16,750,000
Years 1-10, New Facilities	-	-	-	-
Years 11-40, New Facilities	-	-	2,740,000	2,740,000
Annual Revenue	-9,510,000	-8,560,000	-10,250,000	-10,460,000
NPV*	640,130,000	903,739,031	591,260,000	834,590,000
New Financing				
Years 1-5	189,340,000	174,211,037	172,800,000	224,180,000
Years 6-10	102,980,000	174,211,037	106,730,000	137,820,000

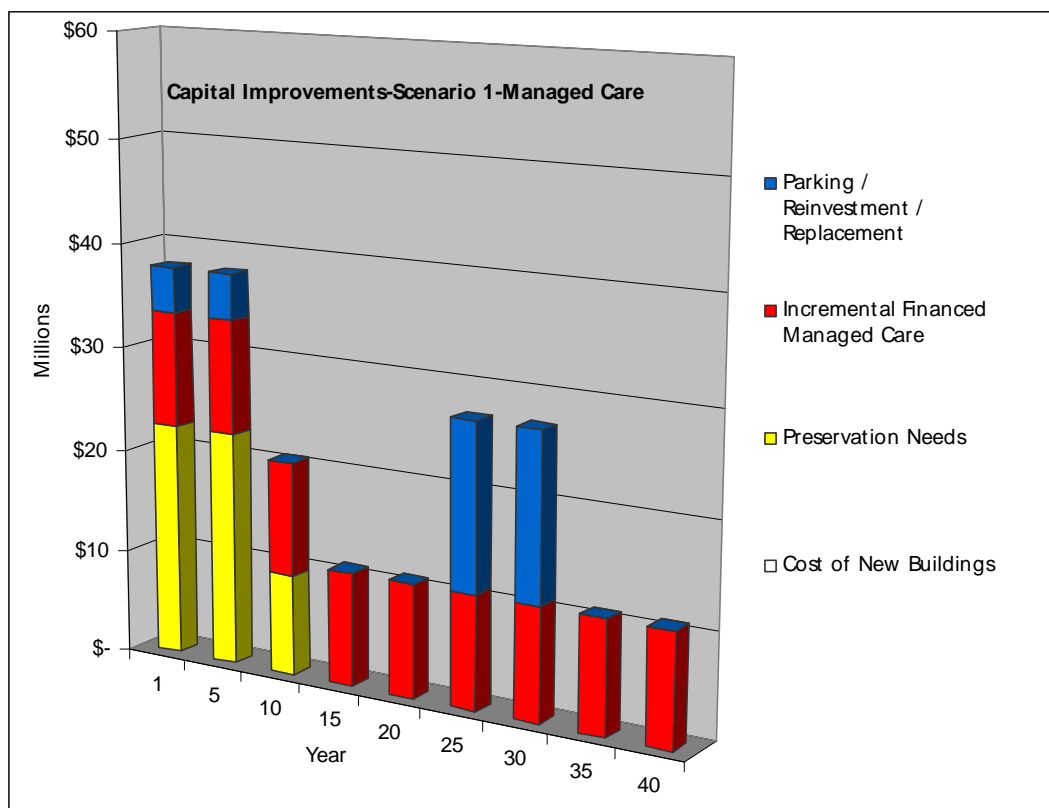
Source: ERA, ND LEA, City of Winnipeg

*Assumes a 40-year NPV at a 4% discount rate

- **Scenario 1: Managed Care.** This scenario will bring current facilities back to the standard level of care and ensure proper managed care. Under Scenario 1, approximately \$160.9 million in preservation needs are invested over years 1-10 as well as an annual investment in managed care.
- **Scenario 2: Status Quo.** In the developed model, the current levels for capital improvements remain at budgeted amounts with a significant reinvestment in years 15-24 totalling \$522.6 million. In reality, the reinvestment and closing of these facilities will occur on a per need basis also known as “crisis management”. If the status quo is maintained, no plans or funding will be in place when facilities reach the end of their life cycle. To prevent this from happening, “Rainy Day Fund” should be implemented with yearly investments of \$34.8 million for the next 15-years.

- Scenario 3: Phased Implementation (Recommended Plan). Scenario 3 includes an investment of \$110.2 million in preservation needs, \$78.9 million in new facilities and demolition of existing buildings, and an annual investment in managed care. It allows for the construction of 11 new Community Campus Components, 5 Urban oasis’s, 3 libraries, the conversion of 45 wading pools, 1 new spray park, and 12 new skateboard parks.
- Scenario 4: Managed Care and Phased Implementation. Scenario 4 is a combination of Scenario 1 and 3. It includes the entire \$160.9 million towards preservation needs and the \$78.9 million for new facilities. Under Scenario 4, facilities would be underutilized since supply would be greater than demand.

10.1 Scenario 1: Managed Care



Under Scenario 1, approximately \$160.9 million dollars in preservation needs would be spent on existing facilities in years 1-10 and \$22 million on parking in years 1-5. It was assumed that roughly 70% of the capital improvements would occur in years 1-5 with the remaining 30% spent in years 6-10; this ratio of capital improvement expenditures is applied in Scenario 3 and 4. The existing buildings would not require any major reinvestment until year 25, where \$161.4 million would be spent over a 10-year period. The reinvestment figure is based on the assumption that the facilities would require a 30% investment towards their current replacement cost.

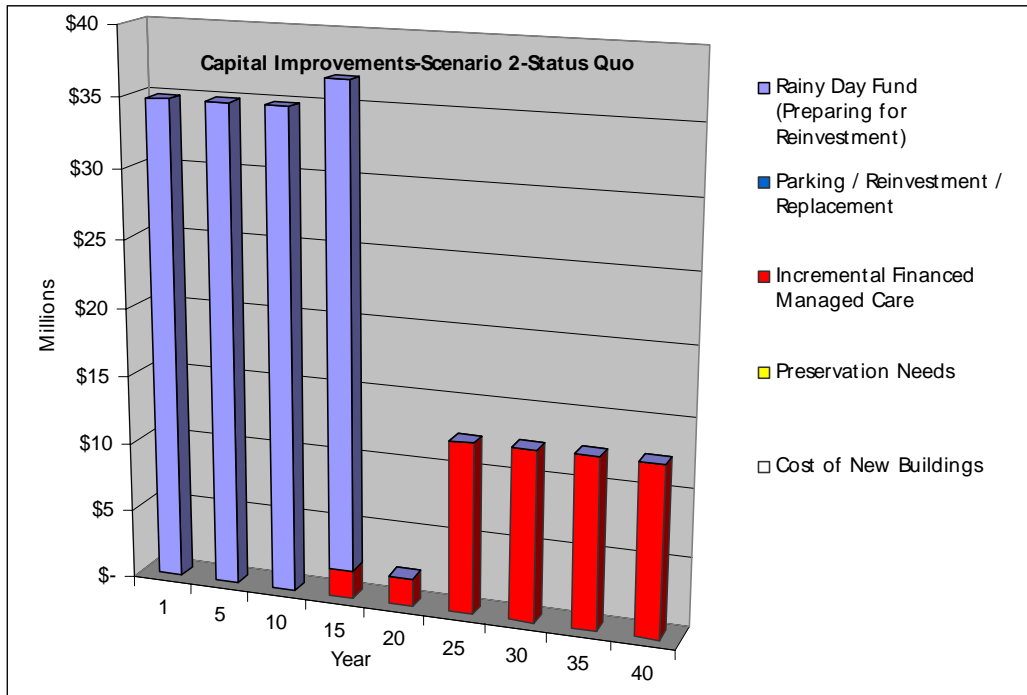
Managed care is an annual expense assuming an investment of 3.5% towards current replacement cost. Incremental financed managed care is the managed care minus the City's budgeted figure for capital improvements. Currently, the City maintains an average capital budget of roughly \$5.8 million.

Operating costs are a combination of labour and maintenance paid only to the Public Works Department. Additional operating expenditures for indoor pools, outdoor pools, and city arenas were included. These operational expenses include salaries and benefits, programming costs, materials, etc. Additional expenses were not included for the other facilities since that information was not provided. While operational costs were taken into account when determining the NPV, they do not fall under the line item of capital improvements and are therefore not financed by debt.

Annual revenue is a combination of revenue generated through the aquatics department, city arenas, and revenue from city-registered programs, and "additional revenue".

Based on the expenditure and revenue line items, under Scenario 1 the facilities have a NPV of approximately \$640 million. Approximately \$189.3 million must be financed for years 1-5 and an additional \$103 million for years 6-10.

10.2 Scenario 2: Status Quo



In the model developed for Scenario 2, no major capital improvements are made on current facilities effectively ending their life cycle by year 15. In reality, the replacement and closing of these facilities would occur on reactive basis. A cost of 125% of their current replacement value was assumed to account for additional costs associated with renovation and repair and is roughly \$522.6 million. Instead of waiting 15-years and then funding this amount, a “Rainy Day Fund” initiated to spread out the \$522.6 million over 15-years. This will help prepare the City for the eventual replacement of their recreational facilities.

It should be noted that indoor pools would cost 100% of their replacement value assuming a 25% salvage reuse. Soccer complexes and community centre arenas have a lower reinvestment cost since they are newer facilities. It was also assumed that no reinvestment capital would be spent on wading pools, effectively closing all of them in the long-term plans for the City.

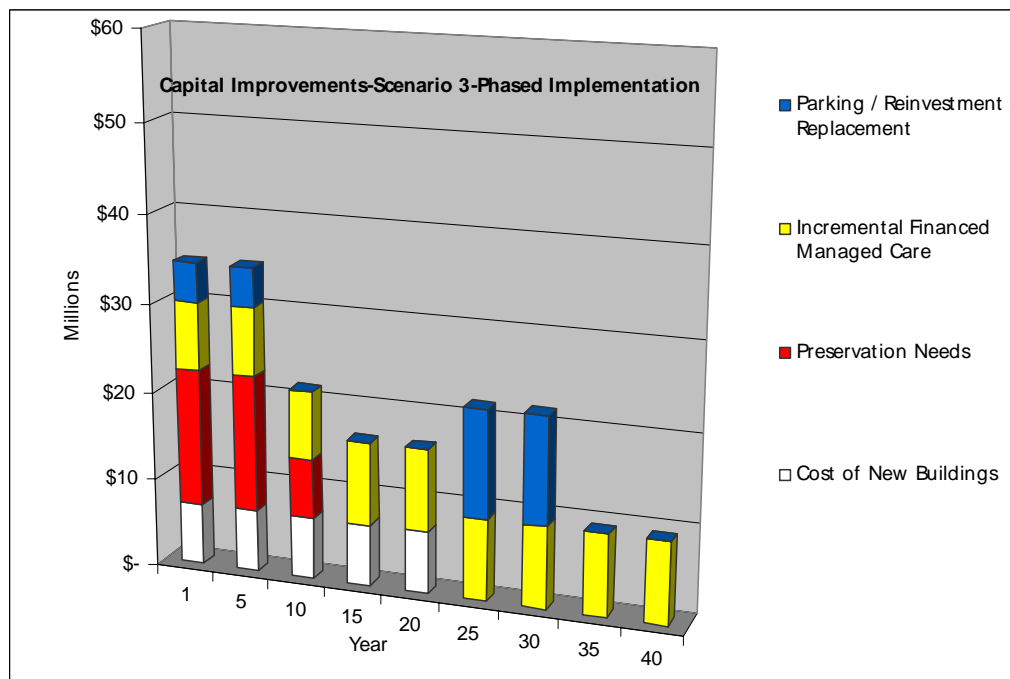
Under Scenario 2, the managed care expenditure is currently budgeted so there is no incremental cost until new facilities are built in year 15. For years 15-25, the managed care expenditure will cost 1.5% of the replacement value, while every year after that the cost will be 3.5% of the replacement value. Since there are no major capital improvements on the buildings as in Scenario 1, operational costs are assumed to increase on average \$2.3 million.

Revenue generated by the facilities will inevitably decrease if capital improvements do not occur. It is conservatively estimated that the facilities lose 10% in revenue compared to Scenario 1.

Based on the expenditure and revenue line items, under Scenario 1 the facilities have a NPV of approximately \$903.7 million. Roughly \$34.8 million of annual funding would be required in the “Rainy Day Fund” for years 1-15. After year 15, aside from managed care expenditures, no new money would need to be financed.

It should also be noted that considerations must be taken into account regarding the general safety of existing facilities that do not receive significant reinvestment. As these facilities reach the end of their life cycle, liability issues could compound the city’s risk and lay extension its financial liability.

10.3 Scenario 3: Phased Implementation (Recommended Plan)



Scenario 3 is envisioned as a phased implementation, whereby the closing of existing facilities and the opening of new facilities would occur over a number of years. For the sake of simplicity, it was assumed that all of the specified closings would occur prior to year 1 and all of the new facilities would come on line prior to year 1 as well.

Based on specific closings, preservation costs decrease from \$160.9 to \$110.2 million for years 1-10 and parking costs remain at \$22 million spread out over years 1-5. Similar to Scenario 1, the existing facilities will have a reinvestment capital expense in year 25 of 30% of replacement value. However, since some of the buildings are closed in Scenario 3, the reinvestment cost is less when compared to Scenario 1.

New facilities will cost approximately \$78.9 million with an additional \$2.3 million that must be spent on the demolition of existing facilities. 0% equity, a 6% discount rate, and a 20-year term on the \$81 million were assumed. Based on these assumptions, the city would have annual payments of roughly \$7.0 million for years 1-20.

As in Scenario 1, managed care for existing facilities remains at 3.5% of the replacement value. However, new facilities were assumed to have a managed care cost of 1.5% for years 1-10 and 3.5% for years 11-40. New facilities have a lower managed care cost for years 1-10 since the general upkeep of these facilities will be less compared to existing facilities.

Under Scenario 3, the City saves approximately \$3.8 million in operating costs. Adjustments in operating costs to existing facilities were made based on specific closings. New facilities will have lower operating costs when compared to existing facilities because of realized efficiencies. These savings should be spent in one of two ways:

1st line maintenance deficiencies

Reducing debt requirements

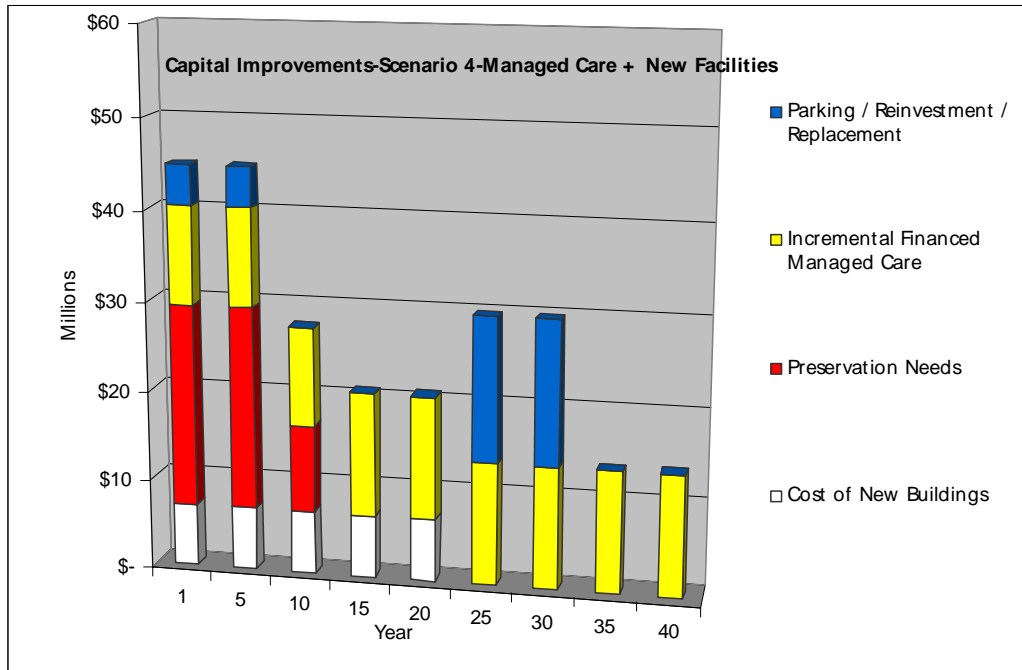
The following operational costs for new facilities were assumed:

- Leisure Water: \$850,000/facility
- Community Campuses and Libraries: \$2/SF
- Spray Pads and Parks: \$1/SF

Based on specific closings, the City loses revenue that was previously generated by arenas, indoor and outdoor pools. To take into account the additional revenue that will be generated once new water facilities are open, the total loss in revenue from closings was calculated (\$1.9 million) and increased by 30%. For revenue generated by City Registered Programs and “Additional Revenue” a 30% increase was assumed as well.

Based on the expenditure and revenue line items, under Scenario 1 the facilities have a NPV of approximately \$602 million. Approximately \$175.8 million must be financed for years 1-5 and an additional \$108.7 million for years 6-10.

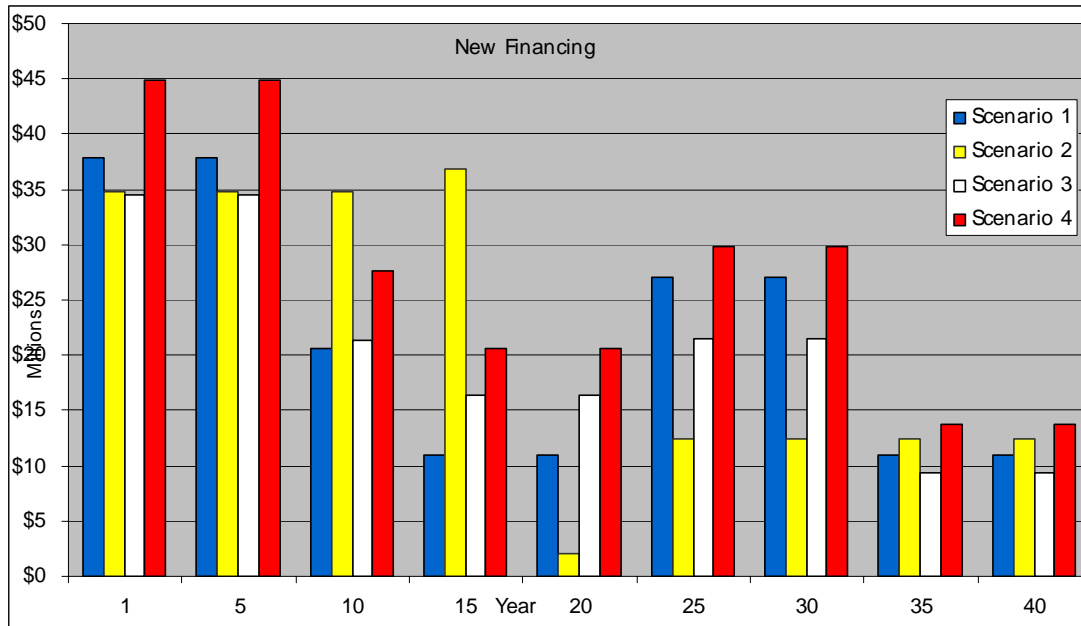
10.4 Scenario 4: Managed Care + New Facilities



Scenario 4 is a combination of Scenario 1 and 3. All of the existing facilities would remain open and receive \$160.9 million in preservation needs. In addition, all of the proposed new facilities would open as well.

Based on the expenditure and revenue line items, under Scenario 4 the facilities have a NPV of approximately \$835 million. Approximately \$224.2 million must be financed for years 1-5 and an additional \$137.8 million for years 6-10.

10.5 Summary of Different Scenarios



Total new capital financing is mapped in the figure above and in Table 5 below. Scenario 3 is considered the most economical and beneficial for the City of Winnipeg. It has the lowest NPV and requires the least amount of financing over the next 40-years. The figure above highlights the amount of financing that must occur under the different scenarios in five-year increments.

Table 5: Preliminary Capital (Thousands of \$)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2004-2009 Average	TOTAL	
PUBLIC WORKS													
Building Services													
Community Centres-Refurbishing and Improvements	500	350	500	500	500	500						470	
Arenas	750	355	525	525	525	525						491	
Indoor Aquatic Facilities	1,515	2,000	2,650	2,650	2,450	2,450						2,440	
Outdoor Aquatic Facilities	475	365	395	450	450	450						422	
Community Facilities	480	200	200	200	200	200						200	
Sub-Total	3,720	3,270	4,270	4,325	4,125	4,125	4,023	4,023	4,023	4,023		4,023	
COMMUNITY SERVICES													
Library Replacement-Variou	0	850	811	360		3,000						1,255	
Community Computer Access Program	280	0	0	0	0	0						0	
Library Shelving and Furniture Replacement Program	0	0	0	329	0	500						166	
Integrated Property Based Information System	0	250	0	0	0	0						50	
Customer Information/ Registration and Booking System	0	0	0	350	250	150						150	
Facility Refurbishment Program	0	0	0	0	150	150						60	
Renovate and Refurbish Library Branches	0	0	0	0	1,250	0						250	
Imaging and Document Managing	0	0	0	0	500	0						100	
Sub-Total	280	1,100	811	1,039	2,150	3,800	1,780	1,780	1,780	1,780		1,780	
Winnipeg's 5-Year Capital Forecast	4,000	4,370	5,081	5,364	6,275	7,925	5,803	5,803	5,803	5,803		5,803	56,227
Capital Forecast													
Recommended Scenario	910	11,030	25,804	3,562	12,650	3,060	2,440	8,250	7,830	0		11,221	75,536
Difference Between Current Capital Forecast and Various Scenarios													
Recommended Scenario	3,090	-6,660	-20,723	1,802	-6,375	4,865	3,363	-2,447	-2,027	5,803		-5,418	-19,309

10.6 Capital Improvements (Recommended Scenario)

Based on the recommended scenario, Table 5 maps out the phased development of new facilities over a 10-year period and the capital costs that would occur in each year. In general, it takes roughly 2 to 3 years for the planning, and construction of a new facility. To take this into account, the total cost of a building would not be spent in one single year, but spread out over 1 to 2 or 1 to 3 years depending on the type of facility. The proposed developments were compared to the currently budgeted capital improvements to illustrate when gaps in financing will occur.

Based on the table below, in 2004 the City budgeted roughly \$3.72 million for Public Works and \$280,000 for Community Services totalling \$4.0 million. On average, the City budgeted an additional \$5.8 million per year from 2005 to 2009.

Under the recommended scenario, the City needs to generate \$75.5 million, however, the City has only forecasted \$56.2 million in capital expenditures. This represents a gap of \$19.3 million. The largest gaps in financing are found in years 2 (\$6.6 million), 3 (\$20.7 million), and 5 (\$6.3 million).

As shown in the following table, year 3 has such a large capital expenditure because 3 new Urban Oases and 3 new Community Campuses are to be completed.

Preliminary Capital-(in Thousands of \$)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2004-2009 Average	Total
PUBLIC WORKS												
Building Services												
Community Centres-Refurbishing and Improvements	500	350	500	500	500	500						470
Arenas	750	355	525	525	525	525						491
Indoor Aquatic Facilities	1,515	2,000	2,650	2,650	2,450	2,450						2,440
Outdoor Aquatic Facilities	475	365	395	450	450	450						422
Community Facilities	480	200	200	200	200	200						200
Sub-Total	3,720	3,270	4,270	4,325	4,125	4,125	4,023	4,023	4,023	4,023		4,023
COMMUNITY SERVICES												
Library Replacement-Variou	0	850	811	360		3,000						1,255
Community Computer Access Program	280	0	0	0	0	0						0
Library Shelving and Furniture Replacement Program	0	0	0	329	0	500						166
Integrated Property Based Information System	0	250	0	0	0	0						50
Customer Information/Registration and Booking System	0	0	0	350	250	150						150
Facility Refurbishment Program	0	0	0	0	150	150						60
Renovate and Refurbish Library Branches	0	0	0	0	1,250	0						250
Imaging and Document Managing	0	0	0	0	500	0						100
Sub-Total	280	1,100	811	1,039	2,150	3,800	1,780	1,780	1,780	1,780		1,780
Winnipeg's 5-Year Capital Forecast	4,000	4,370	5,081	5,364	6,275	7,925	5,803	5,803	5,803	5,803	5,803	56,227
Projected Capital Forecast												
Recommended Scenario	910	11,030	25,804	3,562	12,650	3,060	2,440	8,250	7,830	0		75,536
Difference Between Budgeted Capital Forecast and Phased Development												
Recommended Scenario	3,090	-6,660	-20,723	1,802	-6,375	4,865	3,363	-2,447	-2,027	5,803		19,309

Description	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Total
Assiniboine South											
1- Community Campus		\$420,000	\$3,780,000								\$4,200,000
1- Spray Park		\$20,000	\$180,000								\$200,000
1- Skateboard Park					\$10,000	\$90,000					\$100,000
TOTAL		\$440,000	\$3,960,000		\$10,000	\$90,000					\$4,500,000
Downtown											
1- Community Campus Component				\$375,000	\$3,375,000						\$3,750,000
1- Urban Oasis	\$325,000	\$3,250,000	\$2,925,000								\$6,500,000
4- Spray Pads	\$20,000	\$200,000	\$180,000								\$400,000
4- Spray Pads				\$40,000	\$360,000						\$400,000
4- Spray Pads						\$40,000	\$360,000				\$400,000
4- Spray Pads								\$40,000	\$360,000		\$400,000
1- Skateboard Park		\$10,000	\$90,000								\$100,000
TOTAL	\$345,000	\$3,460,000	\$3,195,000	\$415,000	\$3,735,000	\$40,000	\$360,000	\$40,000	\$360,000		\$11,950,000
Fort Garry											
1- Urban Oasis						\$650,000	\$5,850,000				\$6,500,000
1- Spray Pad			\$10,000	\$90,000							\$100,000
1- Skateboard Park			\$10,000	\$90,000							\$100,000
TOTAL			\$20,000	\$180,000			\$650,000	\$5,850,000			\$6,700,000
Inkster											
2- Spray Pads		\$20,000	\$180,000								\$200,000
2- Spray Pads				\$20,000	\$180,000						\$200,000
2- Spray Pads						\$20,000	\$180,000				\$200,000
1- Skateboard Park			\$10,000	\$90,000							\$100,000
TOTAL		\$20,000	\$190,000	\$110,000	\$180,000	\$20,000	\$180,000				\$700,000
Point Douglas											
1- Community Campus		\$720,000	\$6,480,000								\$7,200,000
1- Urban Oasis		\$650,000	\$5,850,000								\$6,500,000
2- Spray Pads		\$20,000	\$180,000								\$200,000
2- Spray Pads				\$20,000	\$180,000						\$200,000
2- Spray Pads						\$20,000	\$180,000				\$200,000
2- Spray Pads							\$20,000	\$180,000			\$200,000
2- Spray Pads								\$20,000	\$180,000		\$200,000
1- Spray Park	\$5,000	\$50,000	\$45,000								\$100,000
1- Skateboard Park			\$10,000	\$90,000							\$100,000
TOTAL	\$5,000	\$1,440,000	\$12,565,000	\$110,000	\$180,000	\$20,000	\$200,000	\$200,000	\$180,000		\$14,900,000

River East									
1- Community Campus	\$225,000	\$2,250,000	\$2,025,000						\$4,500,000
1- Community Campus Component						\$150,000	\$1,350,000	\$1,500,000	
1- Spray Pad		\$10,000	\$90,000					\$100,000	
1- Spray Pad				\$10,000	\$90,000			\$100,000	
1- Spray Pad						\$10,000	\$90,000	\$100,000	
1- Skateboard Park			\$10,000	\$90,000				\$100,000	
TOTAL	\$225,000	\$2,260,000	\$2,125,000	\$90,000	\$10,000	\$90,000	\$160,000	\$1,440,000	\$6,400,000
River Heights									
1- Community Campus				\$570,000	\$5,130,000				\$5,700,000
1- Community Campus Component						\$150,000	\$1,350,000	\$1,500,000	
1- Spray Pad	\$5,000	\$50,000	\$45,000					\$100,000	
1- Spray Pad				\$10,000	\$90,000			\$100,000	
1- Skateboard Park		\$10,000	\$90,000					\$100,000	
TOTAL	\$5,000	\$60,000	\$135,000	\$580,000	\$5,220,000	\$150,000	\$1,350,000	\$7,500,000	
Seven Oaks									
1- Urban Oasis						\$650,000	\$5,850,000	\$6,500,000	
1- Spray Pad		\$10,000	\$90,000					\$100,000	
1- Spray Pad				\$10,000	\$90,000			\$100,000	
1- Spray Pad						\$10,000	\$90,000	\$100,000	
1- Community Campus Component				\$90,000	\$810,000			\$900,000	
1- Skateboard Park	\$5,000	\$50,000	\$45,000					\$100,000	
TOTAL	\$5,000	\$60,000	\$135,000	\$100,000	\$900,000	\$10,000	\$90,000	\$650,000	\$5,850,000
St Boniface									
1- Urban Oasis	\$325,000	\$3,250,000	\$2,925,000						\$6,500,000
1- Library			\$183,600	\$1,652,400					\$1,836,000
1- Spray Pad		\$10,000	\$90,000						\$100,000
1- Skateboard Park				\$10,000	\$90,000				\$100,000
TOTAL	\$325,000	\$3,260,000	\$3,198,600	\$1,662,400	\$90,000				\$8,536,000
St. James									
1- Community Campus Component						\$90,000	\$810,000	\$900,000	
1- Spray Pad			\$10,000	\$90,000				\$100,000	
1- Skateboard Park		\$10,000	\$90,000					\$100,000	
TOTAL		\$10,000	\$100,000	\$90,000		\$90,000	\$810,000	\$1,100,000	
St. Vital									
1- Community Campus Component					\$300,000	\$2,700,000			\$3,000,000
1- Skateboard Park		\$10,000	\$90,000						\$100,000
TOTAL		\$10,000	\$90,000		\$300,000	\$2,700,000			\$3,100,000

Transcona										
1- Community Campus				\$225,000	\$2,025,000					\$2,250,000
1- Spray Park						\$10,000	\$90,000			\$100,000
1- Skateboard Park	\$10,000	\$90,000								\$100,000
TOTAL	\$10,000	\$90,000	\$225,000	\$2,025,000						\$2,450,000
GRAND TOTAL	\$910,000	\$11,030,000	\$25,803,600	\$3,562,400	\$12,650,000	\$3,060,000	\$2,440,000	\$8,250,000	\$7,830,000	\$75,636,000