



cutting through complexity

Emergency Services Training Centre – Operational and Financial Review – Presentation to Council of the Township of North Huron*

February 21, 2017

(*) Based on the Report dated
September 26, 2016.



Project Objectives

KPMG LLP (“KPMG”) was retained to undertake a review of the operations of the Emergency Services Training Centre (“ESTC”) and develop a operation and financial review/business plan that will address the long-term sustainability of the ESTC. Specific project objectives include:

- Understand the current operations of the ESTC to determine whether the ESTC is providing the desired level of service as efficiently and effectively as possible, and to identify ways to enhance the efficiency and effectiveness of the ESTC’s future operations;
- Review the ESTC’s budgets, historical business plans and financial performance, in order comment on of possible operational models for future performance.
- Determine whether there are any programs or services the ESTC should no longer provide;
- Pull together all of the work completed and develop a final report with comments for the future operation of the ESTC.

Funding

- The cost of the ESTC expansion project was approximately \$1.95 million and consisted of various site improvements. With \$750,000 of federal funding, the Township funded the remainder of the construction cost through a \$1.2 million debenture with Ontario Infrastructure and Lands Corporation.
- The Township has assessed the ESTC with responsibility for covering 55% (\$660,000) of the debenture with the remaining 45% (\$540,000) allocated to the Township of North Huron for its fire department. The loan has an amortization period of 20 years with an interest rate of 3.71%, maturing in 2032.

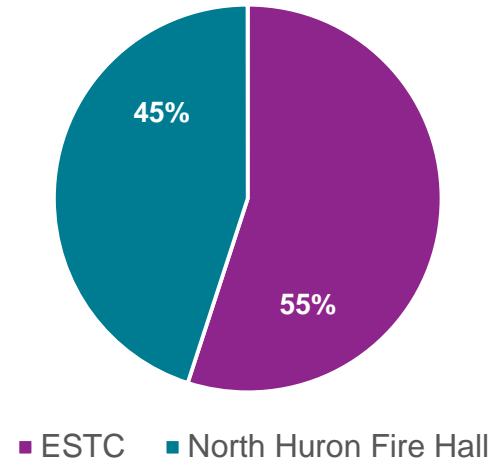
Governance

- Currently, the ESTC is informally governed by the Fire Department on behalf of the Township. ESTC has no formal Board of Directors.

Building Allocation

- The ESTC is currently responsible for 55% of the building-related expenditures as well as 55% of the principal and interest payments on the outstanding loan with the Ontario Infrastructure and Lands Corporation.
- The remaining 45% of building-related expenditures is the responsibility of the Township of North Huron's local fire department.
- The allocation was determined by the Township of North Huron at the inception of the Emergency Services Training Centre facility.
- Emergency Medical Services ("EMS") is also a tenant of the facility. The EMS rents out two spots on the apparatus bay floor which are side-by-side as well as a 15' by 10' office adjacent to the apparatus bay for a monthly fee of \$500 (\$6,000 annually).
- **The ESTC currently does not need the entire facility.**

Allocation of Building Expenditures



Financial Analysis - ESTC

	2012	2013	2014	2015	Cumulative
Total revenue	146,100	215,700	207,100	191,600	
Operational expenses	156,000	233,300	237,900	182,600	
Building expenses	17,400	21,100	20,500	20,000	
Capital expenses	-	-	-	17,600	
Principal and interest on loan	23,500	47,000	47,000	47,000	
Operating deficit	(50,800)	(85,700)	(98,300)	(75,600)	(310,400)

- As at December 31, 2015 (fiscal year-end), the ESTC had a cumulative operating deficit of approximately \$310,400 (before depreciation). However, in fiscal 2015, the Township raised \$98,000 through a tax levy to support an original budgeted deficit of \$98,000. The actual loss (not including depreciation) was \$75,600. The majority of funds raised from the tax levy (\$95,600) was used to bring the cumulative deficit down from \$310,400 to \$214,800 at the end of fiscal 2015. The remaining \$2,400 of money raised through the tax levy was used to support other departments that incurred a loss in fiscal 2015.
- Building expenses represent the ESTC's 55% allocation of the total expenses incurred to maintain the facility.
- As of the 2015 fiscal year-end, the outstanding balance of the Township's \$1.2 million loan was approximately \$1,048,000. The ESTC's 55% portion was \$576,400.

Financial Analysis - ESTC

The following tables present the historical financial results of the ESTC's training operations under two categories:

1. **ESTC** – This category presents the historical revenues and expenses of the ESTC's operations only, separate from any building-related expenditures as well as principal and interest payments on the loan.
2. **Building** – This category presents the historical revenues and expenses related to the building only.

ESTC - Training (*)	2012	2013	2014	2015	Total
Total revenue	142,600	209,700	201,100	185,600	
Operational expenses	156,000	233,300	237,900	182,600	
Capital expenses	-	-	-	17,600	
Operating deficit	(13,400)	(23,600)	(36,800)	(14,600)	(88,400)

(*) Before any notional charge for building rent.

Building - 55%	2012	2013	2014	2015	Total
Total revenue	3,500	6,000	6,000	6,000	
Building expenses	17,400	21,100	20,500	20,000	
Principal and interest on loan	23,500	47,000	47,000	47,000	
Operating deficit	(37,400)	(62,100)	(61,500)	(61,000)	(222,000)

- The cumulative operating deficit of \$310,400 is composed of \$88,400 related to the ESTC's training operations and \$222,000 related to the building's costs.
- Over the four-year period, the building-related operating deficit accounts for approximately 63% to 81% of the total deficit in any given year.

Introduction

The future success and purpose of the ESTC as a stand-alone business and the building itself will be the product of the decisions made by the Township of North Huron. The poor financial performance of the ESTC over the past four years has brought about the realization that a new plan is needed. This new plan must identify the current issues faced by the ESTC and determine an overall strategy for the future operations of the ESTC; and determine the impact of the new strategy on both the ESTC and the Township. This overall strategy is composed of two major considerations:

1. Determining the future of the Emergency Service Training Centre as a training service provider.
2. Determining a use for the building's excess space.



Emergency Services Training Centre – Operational and Financial Review

Review of Options for ESTC

Financial Analysis

Management has developed three scenarios, each depicting the potential financial results of the ESTC operating as a stand-alone training service provider.

Scenario 1: Focus on Existing and Maintainable Clients

- The ESTC would operate with an administrative assistant working two half days per week. The ESTC would limit itself to existing clients and would not pursue any new customers.
- This scenario is the most conservative and would require little effort as the ESTC would not hire a general manager to pursue new clients.

Scenario 2: Continue to Operate the ESTC on a Status Quo Basis

- The ESTC would continue to operate unchanged with one administrative assistant (37.5 hours per week less some time off in the summer months) as well as the fire chief performing various managerial duties. The ESTC would focus on existing and maintainable customers and would only pursue a few new clients.

Scenario 3: Hiring a General Manager to Pursue New Clients

- This is the most aggressive scenario as the ESTC would operate with a full-time general manager. This general manager would be responsible for the day-to-day operations of the Emergency Service Training Centre. While focusing on existing clients, the General Manager would also be required to pursue a wide range of new potential customers.
- Management believes that a fair market salary (excluding benefits) for a general manager to run the ESTC would be approximately \$82,000 per annum, which is currently Management's best estimate. Management believes that this salary level would attract an individual who is familiar with the fire and emergency training industry and would be able to pursue these opportunities.

Financial Analysis

The following table below shows the financial projections under each of the three scenarios as prepared by ESTC Management:

Projections - Scenario #	1	2	3
ESTC course revenue	42,300	65,200	154,100
Contractor course revenue	36,600	113,200	133,400
Other	13,900	32,500	42,600
Total revenue	92,800	210,900	330,100
Expenses:			
Wages and benefits	21,000	62,000	140,000
Course expenses	44,000	123,000	155,000
Office expenses	10,000	17,000	17,000
ESTC rent charge	12,000	12,000	12,000
Capital expenses	4,000	6,000	8,000
Total expenses	91,000	220,000	332,000
Operating income (deficit)	1,800	(9,100)	(1,900)

Assumptions and Considerations:

- The ESTC would rent space within the building at a rate of \$1,000 per month.
- Management has not presented facility rental revenue separately, rather it has been included in ESTC and Contractor course revenue.
- Capital expenses will increase the more the fire grounds are used.
- Scenario Two does not include any salary expense for the fire chief for his oversight role over the ESTC's operations. This would result in an even greater operating deficit.
- Under Scenario Three, the fair market value for salary for a full-time general manager is assumed to be \$82,000.

Analysis

Scenario One:

- The more conservative cost-reduced approach as this would not require a general manager but only a part-time administrative assistant who would handle the day-to-day operations of the ESTC.
- The major deterrent of pursuing this model is that the ESTC will limit itself to existing customers and would not pursue any new customers; therefore, there would be significant negative financial implications if current customers are lost.
- Ultimately, choosing Scenario One would result in limited to no growth for the ESTC, which could severely limit the long-term viability of the ESTC as a stand-alone training service provider.

Scenario Two:

- Not a viable alternative given the current information available.
- The fire chief has expressly communicated that his intentions are to focus his time on his role as the fire chief of the Township as opposed to dealing with the day-to-day operations of the ESTC.
- Scenario Two represents the “status quo” scenario and it is evident that operations cannot continue as they currently are as this provides a financial strain on both the ESTC as a stand-alone business and the Township.

Scenario Three:

- The most aggressive approach as the ESTC would hire a general manager who would be tasked with attracting new customers to the facility.
- The issue with this model is that the ESTC would incur a significant fixed cost for the general manager without having any guarantee as to the potential revenue streams that could result.
- Adopting this model would represent an attempt to grow the business and turn the ESTC into a successful training service provider in the future.

Regardless of the alternative selected, Council should consider the implementation of a new governance model for the ESTC.



Emergency Services Training Centre – Operational and Financial Review

Determining a Use for the Building's Excess Space

Determining a Use for the Building's Excess Space

Financial Analysis

As noted previously, the ESTC is responsible for 55% of the annual building-related costs including principal and interest expenses. As at December 31, 2015, the building expenses and principal and interest payments covered by the ESTC amounted to \$67,000 per annum. Given the current allocation between the ESTC and the fire hall, this represents a grand total of \$121,000 of costs in 2015.

Building - 2015	ESTC	Township	Total
Building expenses	20,000	16,000	36,000
Principal and interest on loan	47,000	38,000	85,000
Total	67,000	54,000	121,000

Break-even Analysis	
Total building costs - ESTC only	67,000
Months	12
Break-even rent per month	5,583

- The Township would require approximately \$6,000 (including annual inflation of expenses) in revenue per month in order to cover the ESTC's 55% allocation of annual building expenditures.
- Currently, the EMS is the only additional tenant in the facility and pays \$500 a month for two spots on the apparatus bay floor and one office space.

Determining a Use for the Building's Excess Space

Analysis

- The ESTC facility is too large for the operations of just the ESTC and the local fire hall and this has resulted in a severely under-utilized facility.
- The practical use of the building as a fire hall and a fire training centre somewhat limits its attractiveness to non-municipal tenants.
- Potential tenants can be categorized into two groups, municipal tenants and non-municipal tenants, each having their own advantages and disadvantages.
 - Non-municipal tenants could provide an external revenue stream that can be used to offset building expenses. However, non-municipal tenants would likely result in property taxes being assessed against a portion of the building.
 - The other option is for the Township or County to use the excess space within the facility. This option would ensure that no additional property tax expense is incurred. The major deterrent of this option is that there currently is limited (if other Townships use the facility) to no potential for external revenue flowing to the Township, which would leave the Township responsible for all building-related expenses.

Regardless of the tenant or combination of tenants, it is critical that Council understand that it will be the responsibility of the Township of North Huron to cover all building-related expenditures associated with the ESTC facility.

Conclusion

- Council must first determine if there are any potential non-municipal parties who would be interested in renting a portion of the facility and cover a significant portion of or all of the building-related expenses.
- If Council determines that pursuing non-municipal clients is not an option, then the Township must consider the possibility of using the excess space in the facility.
- The shared services review between Morris-Turnberry and North Huron provides an opportunity for the Township to consider the excess space that the facility has to offer.

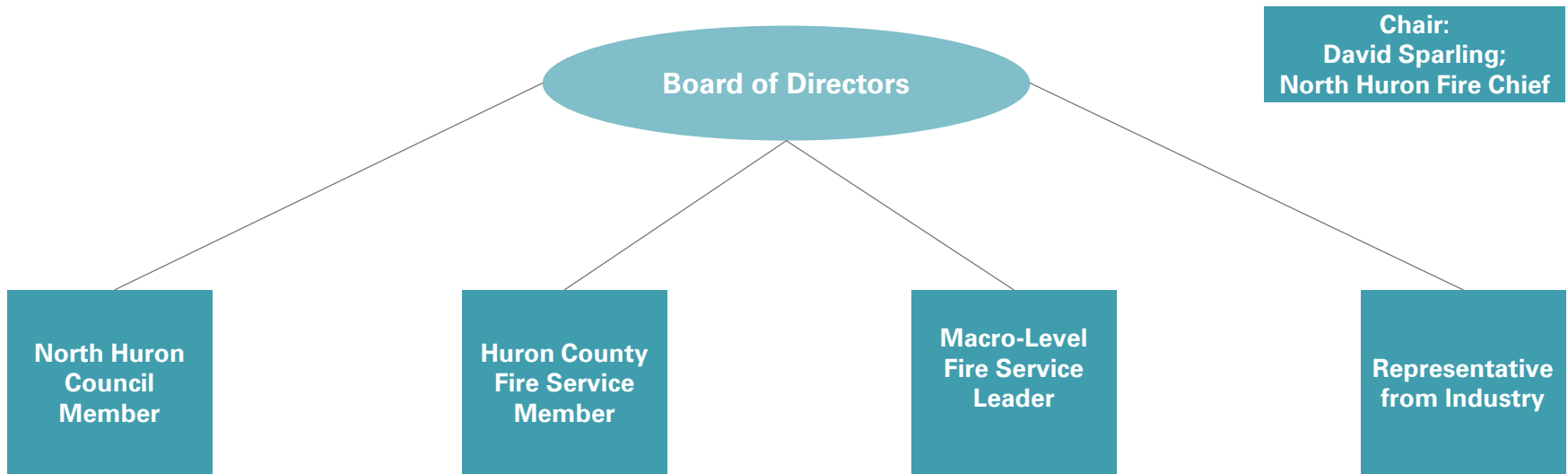


Emergency Services Training Centre – Operational and Financial Review

Governance Model

Governance Model

The Emergency Services Training Centre is currently a self-governed division of the Township's fire department. In the future the following governance model is suggested:



North Huron Council Member - A representative from Council will ensure that the Township is represented in the decisions made by the ESTC's Board. This will also ensure that there is an open line of communication between the ESTC and the North Huron Council.

Huron County Fire Service Member – This will ensure that the Board is represented by a individual who understands the current and future direction of fire services in the Huron County.

Macro-Level Fire Service Leader - A representative understanding the direction of fire service training in Ontario and nationally will be essential to the future success of the ESTC.

Representative from Industry - A representative from an organization that requires emergency training (i.e. petrochemicals, marine) other than fire training will ensure that the Board is aware of training demands in other emergency service areas.



Emergency Services Training Centre – Operational and Financial Review

Overall Conclusions

Conclusions

- Increased competition since construction of the new ESTC facility in 2011.
- As a result, operating the ESTC as a training service provider is not financially viable, particularly if the ESTC is required to assume 55% of all building-related expenditures and still remain competitive in the industry. A more suitable alternative would be for the ESTC training business to become a tenant of the building and pay rent; which would offset a portion of the building-related expenditures.
- Council should find additional tenants or uses for the excess building space in order to cover the remaining portion of the building-related expenditures.
- The establishment of a independent governance model for the ESTC should result in both the operational and financial performance of the ESTC as a training service provider being monitored regularly.



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