

To: Chief Administrative Officer **Date:** June 19, 2023
From: Chris Gruenwald, Director of Forestry
Subject: **Forestry Operations 2023 Quarter 1 (Q1) Report**

Recommendation(s)

This report is provided for information only. No staff recommendation accompanies this report and Council action is not required.

This report provides a summary of the first quarter financial results for the forestry operation, together with additional information on forestry reserves, strategies, plans, activities, and challenges for the upcoming year.

Purpose

1. To provide financial results for the forestry operations for the first quarter (Q1) of 2023 (January 1, 2023 to March 31, 2023).
2. To provide information on strategies and plans.
3. To provide the status of the forestry reserves.
4. To provide an update on other forestry activities in Q1.
5. To provide an update on issues for the upcoming year.

Background

Staff has prepared this report regarding financial information for forestry operations in the first quarter (Q1) of 2023. This budget review report includes a comparison of the previous year financial results, status of the forestry reserves and an update on other forestry activities during the quarter.

Discussion and Analysis

1. Financial Results for Q1 2023

The forestry financial results are reporting a Q1 2023 net profit of \$3,527,792 (after fee/fund transfers) compared to the forecasted Q1 2023 net profit of \$843,849 and Q1 2022 net profit of \$83,981. The positive results for the quarter were due to completion of the large 2022 timber sale, which could not be completed by the end of 2022, on account of the extremely dry 3rd quarter.

Table 1 provides a summary of the quarterly results comparing, 2023 budget, 2023 actual, and 2022 actual.

Appendix A is a detailed report on the actual results versus budget for the quarter.

Table 1: Comparison of Q1 2023 Budget versus 2023 Actual and 2022 Actual Financial Results

2023 Budget and Actual versus 2022 Actual

	2023 Q1			2022 Q1	Current Year over Prior Year Variance Favorable / (Unfavorable)
	Budget	Actual	Budget Variance Favorable / (Unfavorable)	Actual	
Timber Sales	\$ 2,232,000	\$ 5,216,496	\$ 2,984,496	\$ 884,516	\$ 4,331,980
Waste Billing	\$ -	\$ -	-	35,257	-
Other Revenue	\$ 2,200	\$ 8,606	6,406	65,835	57,229
Total Revenue	\$ 2,234,200	\$ 5,225,102	2,990,902	\$ 985,608	\$ 4,239,494
Direct Logging Expense	1,042,023	1,396,360	(354,337)	620,845	(775,515)
Gross Margin	\$ 1,192,177	\$ 3,828,742	2,636,565	\$ 364,763	\$ 3,463,979
Other Expenses	315,254	267,876	47,378	236,919	(30,957)
Net Profit (Loss) Before Transfers	\$ 876,923	\$ 3,560,866	\$ 2,683,943	\$ 127,844	\$ 3,433,022
Transfers	33,074	33,074	-	43,863	10,789
Net Profit (Loss) After Transfers	\$ 843,849	\$ 3,527,792	\$ 2,683,943	\$ 83,981	\$ 3,443,811
Timber Sales \$/m ³	\$ 93.00	\$ 196.17	\$ 103.17	\$ 151.49	\$ 44.68
Waste Volume	-	-	-	1,075	-
Timber Sale Volume	24,000	26,592	2,592	5,839	20,753

2. Summary of the Strategies and Plans in 2023

The timber market has softened since its peak in the second quarter of 2022, though the market for utility poles, both for Western Red Cedar and Douglas-fir, remains strong. Taking advantage of the strong utility pole market, the Department released two timber sales in the first quarter, totaling 52,000m³, which combined will gross nearly \$7 million dollars when completed. When added to the revenue from the first quarter, revenue for the year will be significant.

- a. **Log revenue, marketing and sales** – The 2023 Q1 timber sales revenues were \$5,216,496 (\$196.17/m³) against a budget of \$2,232,000 or \$93.00/m³. The significant increase in revenue from budget is due to the completion of the large 2022 timber sale that could not be completed last year on account of the extremely dry 3rd quarter – the Department’s weather station recorded only 2mm of rainfall in the quarter, and operations were curtailed as a result. Total revenue for the quarter was \$5,225,102 which included other miscellaneous revenues of \$8,606.
- b. **Operational costs** – The detailed breakdown of costs by type are in Appendix A. For the quarter, direct logging expenses were higher than forecast, by \$354,337. This is due to a combination higher stumpage costs (\$430,601) and contract road costs (\$72,990). Higher stumpage costs were a result of higher volumes harvested and higher average stumpage rate/m³. Higher contract road costs are due to higher volumes of rock blasting than forecast for the quarter. These costs were offset by lower contract costs (\$179,008).
- c. **Other Expenses** – Other expenses for the quarter were lower by \$47,378 primarily due to lower road and bridge maintenance costs (\$43,160) and Engineering costs (\$34,596). These were offset by higher silviculture costs (\$30,281) which was a result of the spring tree planting

program being started in the quarter.

3. Forestry Reserve Status

Starting in 2022, Forestry operations now contributes to three reserves – the Forestry Operating Surplus, used to offset any operating losses that may occur in any given year or any emergent or unexpected operating cost, the Forestry Capital Reserve, used to fund the replacement, major repairs and refurbishment of existing forestry capital assets, and the Forestry Legacy Reserve, used to fund new significant capital projects for the City. The current balances of the three reserves are summarized in Table 2.

Table 2: Estimated Forestry Reserve Balances at 2023 Q1				
FORESTRY RESERVES	Forestry Capital Reserve (Optimum balance \$73,000)	Forestry Operating Surplus (Optimum balance \$1,717,000)	Forestry Legacy Reserve	Total
Opening Balance Jan 1 2023	\$ 880,085	\$ 1,738,711	\$ 2,319,474	\$ 4,938,271
Capital Projects (carried forward from 2022)	\$ (458,773)			\$ (458,773)
Capital Projects (approved in 2023 Financial Plan)			\$ (535,600)	\$ (535,600)
YTD net Profit at March 31 2023			\$ 3,527,792	\$ 3,527,792
Estimated Balance at March 31 2023	\$ 421,312	\$ 1,738,711	\$ 5,311,666	\$ 7,471,690

*Once Optimum Balance in Capital and Operating reached rest of the profit goes to Legacy.

4. Highlights of Other Forestry Activities in Q1

In addition to our legal forestry obligations and our objective to optimize the financial return on the Tree Farm Licence investment, we also manage the forestry operation to meet various recreation, education and community forestry responsibilities. Some of the other forestry activities accomplished in the third quarter are:

- a) No lost time accidents were recorded in the quarter.
- b) Took part in an online First Nations panel discussion hosted by the University of the Fraser Valley (January 19th)
- c) Completed a tour of the Municipal Forest with high school teachers from École Mission Senior Secondary and Heritage Park Middle School (February 17th)
- d) Completed tours with students from BCIT (March 10th), Selkirk College (March 23rd), and College of New Caledonia (March 28th)
- e) Set up a booth at the Shine Bright event (March 3rd)
- f) Startup of the Spring tree planting program (March 29th)

5. Challenges and Opportunities for 2023

There are both positive outlooks and some challenges for 2023:

- a) The Department released the timber sales to take advantage of strong utility pole markets and was able to maximize revenue for the Community. Markets for utility poles has since dropped off, so the early release was timely.
- b) The early release of the timber sales has also provided plenty of time to meet our five-year cut control obligations for the period (2019-2023)
- c) Climate change presents a significant challenge to the Department, and City as a whole. The Department is working with UBC Faculty of Forestry on completion of a climate change vulnerability assessment for the Municipal Forest (MF), and will be contributing funding in 2023 for two climate change related studies in the MF.

Financial Implications

The forestry financial results are reporting a Q1 2023 net profit of \$3,527,792. The Forestry Legacy Reserve balance to March 31, 2023 is estimated at \$5,311,666 while the Forestry Operating Surplus estimate of \$1,738,711 and Forestry Capital Reserve estimate of \$421,312 are both at or above their optimum balances.



I have reviewed the financial implications
Scott Ross, Manager of Accounting Services

Summary and Conclusion

The forestry financial results are reporting a Q1 2023 net profit of \$3,527,792. The Forestry Legacy Reserve balance to March 31, 2023 is estimated at \$5,311,666 while the Forestry Operating Surplus estimate of \$1,738,711 and Forestry Capital Reserve estimate of \$421,312 are both at or above their optimum balances.

Positive financial results for the quarter are due to completion of the large delayed 2022 timber sale that occurred in Q1 2023. In addition, the department also released two additional timber sales in the quarter, which took advantage of strong utility pole markets, and will generate an additional \$7 million dollars in the year. This year represents the last year of our current five-year cut control period (2019-2023), and release of the sales early ensures the department will meet its' harvesting obligations to the Province.

Climate change presents a significant challenge to the operation, and the department is working with UBC on climate change research, including providing funds for research.

Report Prepared by: Chris Gruenwald, Director of Forestry
Reviewed by: Jocelynn Low, Accounting Supervisor
Approved for Inclusion: Mike Younie, Chief Administrative Officer

Appendix A
Detailed Forestry Operations Financial Results
For the 1st Quarter and YTD ended March 31, 2023

	Budget		Actual	
	YTD/Q1	per m ³	YTD/Q1	per m ³
Timber Sales	\$ 2,232,000	\$ 93.00	5,216,496	\$ 196.17
Waste Billing	-	-	-	-
Other Revenues	2,200	0.09	8,606	0.32
Total Revenues	2,234,200	93.09	5,225,102	196.49
Direct Logging Expenses				
Contracts	187,500	7.81	8,492	0.32
Stumpage	685,680	28.57	1,116,281	41.98
Contract Roads	63,636	2.65	136,626	5.14
Salaries	55,533	2.31	59,354	2.23
Equipment	32,099	1.34	21,416	0.81
Materials	17,575	0.73	54,191	2.04
Total Direct Logging Expenses	1,042,023	43.42	1,396,360	52.51
Gross Margin	1,192,177	49.67	3,828,742	143.98
Other Expenses				
Administration	147,166	6.13	170,922	6.43
Silviculture	2,500	0.10	32,781	1.23
Road & Bridge Maintenance	54,223	2.26	11,064	0.42
Engineering	47,362	1.97	12,767	0.48
Patrols & Vandalism	4,206	0.18	16,507	0.62
Recreation	-	-	4,875	0.18
Stave West	-	-	-	-
Other	59,797	2.49	18,961	0.71
Total Other Expenses	315,254	13.14	267,876	10.07
Net profit (loss) before transfers	876,923	36.54	3,560,866	133.91
Transfers to non-forestry reserves	33,074	1.38	33,074	1.24
Net Profit (Loss)	\$ 843,849	\$ 35.16	\$ 3,527,792	\$ 132.67
Gross Margin %	53%		73%	
Volume (m ³) Timber Sales	24,000		26,592	
Volume (m ³) Waste Billing	0		-	
Total Volume	24,000		26,592	