

To: Chief Administrative Officer **Date:** September 5, 2023
From: Chris Gruenwald, Director of Forestry
Subject: **Forestry Operations 2023 Quarter 2 (Q2) Report**

Recommendation(s)

This report is provided for information only. Council action is not required.

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

Purpose

1. To provide financial results for the forestry operations for the second quarter (Q2) of 2023 (April 1, 2023 to June 30, 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 Q2.
5. To provide an update on issues for the remaining year.

Background

Staff has prepared this report regarding financial information for forestry operations in the second quarter (Q2) 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 Q2 2023

The forestry financial results are reporting a Q2 2023 net profit of \$2,856,861 (after fee/fund transfers) compared to the forecasted Q2 2023 net profit of \$610,716 and Q2 2022 net profit of \$1,687,581. The positive results for the quarter were due to the startup of harvesting two large timber sales, released in the first quarter, which took advantage of strong utility pole markets.

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 Q2 2023 Budget versus 2023 Actual and 2022 Actual Financial Results

2023 Budget and Actual versus 2022 Actual

	2023 Q2			2022 Q2	
	Budget	Actual	Budget Variance Favorable / (Unfavorable)	Actual	Current Year over Prior Year Variance Favorable / (Unfavorable)
Timber Sales	\$ 2,232,000	\$ 4,113,210	\$ 1,881,210	\$ 2,999,201	\$ 1,114,009
Waste Billing	\$ -	\$ 88,352	88,352	23,656	88,352
Other Revenue	\$ 11,300	\$ 116,027	104,727	8,043	107,984
Total Revenue	\$ 2,243,300	\$ 4,317,589	2,074,289	\$ 3,030,900	\$ 1,286,689
Direct Logging Expense	1,073,842	1,113,443	(39,602)	936,308	(177,135)
Gross Margin	\$ 1,169,458	\$ 3,204,146	2,034,688	\$ 2,094,592	\$ 1,109,554
Other Expenses	525,669	314,211	211,458	363,148	48,937
Net Profit (Loss) Before Transfers	\$ 643,790	\$ 2,889,935	\$ 2,246,146	\$ 1,731,444	\$ 1,158,491
Transfers	33,074	33,074	-	43,863	- 10,789
Net Profit (Loss) After Transfers	\$ 610,716	\$ 2,856,861	\$ 2,246,146	\$ 1,687,581	\$ 1,169,280
Timber Sales \$/m ³	\$ 93.00	\$ 144.68	\$ 51.68	\$ 172.30	\$ (27.62)
Waste Volume	-	-	-	-	-
Timber Sale Volume	24,000	28,431	4,431	17,407	11,024

2. Summary of the Strategies and Plans in 2023

The timber market has softened since its peak in the second quarter of 2022, and has fallen off significantly since the first quarter of this year. Taking advantage of strong utility pole markets, the Department released two timber sales in the first quarter, totaling 52,000m³, which combined will gross nearly \$7 million dollars when completed.

- a. **Log revenue, marketing and sales** – The 2023 Q2 timber sales revenues were \$4,113,210 (\$144.68/m³) against a budget of \$2,243,300 or \$93.00/m³. The significant increase in revenue from budget is due to the startup of the two large timber sales released in the first quarter. Total revenue for the quarter was \$4,317,589 which included waste billing of \$88,352 and other miscellaneous revenues of \$116,027.
- 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 \$39,602. This is due to a combination higher stumpage costs (\$153,969) and contract road costs (\$62,235). Higher stumpage costs were a result of higher volumes harvested and slightly 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 (\$154,071).
- c. **Other Expenses** – Other expenses for the quarter were lower by \$211,458 primarily due to lower silviculture costs (\$57,146), road and bridge maintenance costs (\$39,890) and engineering costs (\$33,332).

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 Q2				
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 June 30 2023			\$ 6,388,178	\$ 6,388,178
Estimated Balance at June 30 2023	\$ 421,312	\$ 1,738,711	\$ 8,172,052	\$ 10,332,076

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

4. Highlights of Other Forestry Activities in Q2

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 second quarter are:

- a) Hosted a community cutBLOCK Party (April 1st), along with the Communications Manager and Manager of Arts and Culture. Approximately 200 people showed up for the event, which was remarkable given the wet weather that day. The department received positive feedback from the community for this event.
- b) Took part in an Outdoor Career Exploration Camp for Mission Secondary students (April 11th) at Zajac Ranch, where the Department shared how the Municipal Forest is managed and the various career opportunities available to forest professionals.
- c) Completed the spring tree planting program (April 16th). 70,620 trees were planted over 58 hectares.
- d) Hosted a Forest Investment Tour (May 10th) with staff from the Ministry of Forests. The department showcased the silviculture work that takes place at the Municipal Forest, and was awarded a provincial grant of \$42,000 for juvenile spacing projects in the MMF.
- e) Completed a Forestry talk at West Heights Elementary School (June 7th)
- f) Hosted a guided hike of the Municipal Forest for the Abbotsford Naturalists (June 10th)

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) 2023 is projected to be a record year for the Department financially. The combination of advantageous timing of the release of the timber sales and lower stumpage costs has created favourable financial conditions.
- 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 Q2 2023 net profit of \$2,856,861. The Forestry Legacy Reserve balance to June 30, 2023 is estimated at \$8,172,052 while the Forestry Operating Surplus estimate of \$1,738,711 and Forestry Capital Reserve estimate of \$421,312 are 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 Q2 2023 net profit of \$2,856,861. The Forestry Legacy Reserve balance to June 30, 2023 is estimated at \$8,172,052 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.

The positive results for the quarter were due to the startup of harvesting two large timber sales, released in the first quarter, which took advantage of strong utility pole markets. When added to the strong first quarter results and the fact that there is additional volume to harvest before the end of the year, 2023 is projected to be a record year for the Department financially.

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

For the 2nd Quarter and YTD ended June 30, 2023

	Budget		Actual		Budget		Actual	
	Q2	per m ³	Q2	per m ³	YTD	per m ³	YTD	per m ³
Timber Sales	\$ 2,232,000	\$ 93.00	\$ 4,113,210	\$ 144.68	\$ 4,464,000	\$ 93.00	\$ 9,329,706	\$ 169.56
Waste Billing	-		88,352	37.34	-		88,352	30.64
Other Revenues	11,300	0.47	116,027	3.77	13,500	0.28	124,633	2.15
Total Revenues	2,243,300	93.47	4,317,589	185.79	4,477,500	93.28	9,542,691	173.43
Direct Logging Expenses								
Contracts	187,500	7.81	33,429	1.18	375,000	7.81	41,921	0.76
Stumpage	685,680	28.57	839,649	29.53	1,371,360	28.57	1,955,930	35.55
Contract Roads	95,455	3.98	157,689	5.55	159,091	3.31	294,316	5.35
Salaries	55,533	2.31	47,902	1.68	111,066	2.31	107,256	1.95
Equipment	32,099	1.34	8,340	0.29	64,198	1.34	29,756	0.54
Materials	17,575	0.73	26,434	0.93	35,150	0.73	80,625	1.47
Total Direct Logging Expenses	1,073,842	44.74	1,113,443	39.16	2,115,865	44.08	2,509,803	45.61
Gross Margin	1,169,458	49	3,204,146	146.62	2,361,635	49.20	7,032,888	127.82
Other Expenses								
Administration	147,166	6.13	132,867	4.67	294,331	6.13	303,789	5.52
Silviculture	157,573	6.57	100,427	3.53	160,073	3.33	133,208	2.42
Road & bridge Maintenance	55,009	2.29	15,119	0.53	109,233	2.28	26,182	0.48
Engineering	59,362	2.47	26,030	0.92	106,724	2.22	48,114	0.87
Patrols & Vandalism	31,948	1.33	12,577	0.44	36,154	0.75	29,084	0.53
Recreation	12,827	0.53	-	-	12,827	0.27	4,875	0.09
Stave West	13,330	0.56	1,000	0.04	13,330	0.28	1,000	0.02
Other	48,453	2.02	26,190	0.92	59,671	1.24	32,310	0.59
Total Other Expenses	525,669	21.90	314,211	11.05	792,343	16.51	578,562	10.52
Net profit (loss) before transfers	643,790	26.82	2,889,935	101.65	1,569,292	32.69	6,454,326	117.30
Transfers to non-forestry reserves	-	-	-	-	-	-	-	-
Admin Recovery Fee	33,074	1.38	33,074	1.16	66,148	1.38	66,148	1.20
Net Profit (Loss)	\$ 610,716	\$ 25.45	\$ 2,856,861	\$ 101.65	\$ 1,503,144	\$ 32.69	\$ 6,388,178	\$ 116.10
Gross Margin %	52%		74%		53%		74%	
Volume (m ³) Timber Sales	24,000		28,431		48,000		55,022	
Volume (m ³) Waste Billing			2,366				2,884	
Total Volume	24,000		30,797		48,000		57,906	