

To: Chief Administrative Officer **Date:** June 17, 2024
From: Chris Gruenwald, Director of Forestry
Subject: **Forestry Operations 2024 Quarter 1 (Q1) Report**

Recommendation(s)

This report is provided for information only. 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 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 2024 (January 1, 2024 to March 31, 2024).
2. To provide information on strategies and plans.
3. To provide an update on other forestry activities in Q1.
4. 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 2024. This budget review report includes a comparison of the previous year's financial results, and an update on other forestry activities during the quarter.

Discussion and Analysis

1. Financial Results for Q1 2024

The forestry financial results are reporting a Q1 2024 net profit of \$57,382 (after fee/fund transfers) compared to the forecasted Q1 2024 net profit of \$866,121 and Q1 2023 net profit of \$3,527,792. The results were due to a lack of harvesting activity during the quarter, as timber markets remained soft at the start of the year.

Table 1 provides a summary of the quarterly results comparing, 2024 budget, 2024 actual, and 2023 actual.

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

Table 1: Comparison of Q1 2024 Budget versus 2024 Actual and 2023 Actual Financial Results

2024 Budget and Actual versus 2023 Actual

	2024 Q1			2023 Q1	Current Year over Prior Year Variance Favorable / (Unfavorable)
	Budget	Actual	Budget Variance Favorable / (Unfavorable)	Actual	
Timber Sales	2,352,000	453,714	(1,898,286)	5,216,496	(4,762,782)
Waste Billing	0	0	0	0	0
Other Revenue	9,800	116,384	106,584	8,606	107,778
Total Revenue	2,361,800	570,098	(1,791,702)	5,225,102	(4,655,004)
Direct Logging Expense	1,181,623	84,805	1,096,818	1,396,360	1,311,555
Gross Margin	1,180,177	485,293	(694,884)	3,828,742	(3,343,449)
Other Expenses	267,729	381,584	(113,855)	267,876	(113,708)
Net Profit (Loss) Before Transfers	912,448	103,709	(808,739)	3,560,866	(3,457,158)
Transfers	46,327	46,327	0	33,074	13,253
Net Profit (Loss) After Transfers	866,121	57,382	(808,739)	3,527,792	(3,470,411)
Timber Sales \$/m ³	98	128	30	196	(68)
Waste Volume	0	0	0	0	0
Timber Sale Volume	24,000	3,548	(20,452)	26,592	(23,044)

2. Summary of the Strategies and Plans in 2023

The timber market has remained soft since its peak in the second quarter of 2022, though the market appears to have hit a low point in the cycle. As a result, the department held off on releasing timber sales in the first quarter of 2024, until the market outlook improves.

- a. **Log revenue, marketing and sales** – The 2024 Q1 timber sales revenue was \$453,714 (\$127.88/m³) against a budget of \$2,352,000 or \$98.00/m³. The drop in revenue from budget is due to the lack of harvest activities in the quarter. Total revenue for the quarter was \$570,098 which included other miscellaneous revenues of \$116,384.
- b. **Operational costs** – For the quarter, direct logging expenses were lower than forecast, by \$1,096,818. The lack of harvesting activity for the quarter was a key driver in the lower stumpage costs (\$833,962).
- c. **Other Expenses** – Other expenses for the quarter were higher by \$113,855 primarily due to grant expenses associated with the FireSmart program. This expense was offset by the miscellaneous revenues of \$116,384, which is tied to grant funding received under the program.

3. 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, educational, and community forestry responsibilities. Some of the other forestry activities accomplished in the first quarter are:

- a) Presented to the Mission Sunrise Rotary Club (January 10th)

- b) Guest Lecturer for 4th Year UBC Operations Class, at the Faculty of Forestry (January 16th)
- c) Attended the Forest Professionals BC Annual Conference, in Kelowna. Kelly Kitsch, Forestry Technologist, was welcomed as the new President of FPBC and the Director participated on a panel discussing the Finland Forestry Tour.
- d) Completed tour with BCIT 2nd year Forestry Engineering class (March 8th)
- e) Completed Spring Tree Plant (late March) – 81,000 trees planted, including the 5 millionth tree in the Municipal Forest
- f) Completed juvenile spacing project (late March), fully funded by the Province.

4. Challenges and Opportunities for 2024

There are both positive outlooks and some challenges for 2024:

- a) While timber markets remain soft, particularly for Western Hemlock, there are signs that markets have reached the bottom of the cycle and could be starting to improve. The department is actively monitoring markets and will release timber sales to take advantage of improving markets and low stumpage costs.
- b) The lack of snowfall and warmer winter weather is a concern as we head into the start of wildfire season (April 1st). The department has been working closely with our partners, including Mission Fire Rescue Service and BC Wildfire Service, to ensure we are well prepared for the 2024 wildfire season. As in other years, during extreme wildfire risk times, harvesting activities may be reduced or suspended altogether depending on current conditions and related risk to the tree farm and surrounding community.

Financial Implications

The forestry financial results are reporting a Q1 2024 net profit of \$57,382.



I have reviewed the financial implications.
Scott Ross, Manager of Financial Planning & Analysis

Summary and Conclusion

The forestry financial results are reporting a Q1 2024 net profit of \$57,382.

The results for the quarter are due to a lack of harvesting activity over the quarter, as a result of soft timber markets, which appear to have reached the low point of the cycle and should start to improve. This year represents the first year of our current five-year cut control period (2024-2028), which gives the department greater flexibility to defer harvesting until markets improve.

The department is working closely with Mission Fire Rescue Service and BC Wildfire Service to prepare for the 2024 Wildfire season, which is forecast to be at high risk over the season.

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

Appendix A
Forestry Operations Financial Results
YTD ended March 31, 2024

REVENUES	
Timber Sales	\$453,714
Waste Billing	\$0
Other Revenue	\$116,384
Total Revenue	\$570,098
Direct Logging Expenses	\$84,805
Other Expenses	\$381,584
Total Expenses	\$466,390
Net Profit Before transfers	\$103,709
Transfers	\$46,327
Net Profit after transfers	\$57,382