

To: Chief Administrative Officer **Date:** August 16, 2021
From: Chris Gruenwald, Director of Forestry
Subject: **Forestry Operations 2021 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 upcoming year.

Purpose

1. To provide financial results for the forestry operations for the second quarter (Q2) of 2021 (April 1, 2021 to June 30, 2021).
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 upcoming year.

Background

Staff has prepared this report regarding financial information for forestry operations in the second quarter (Q2) of 2021. This budget report includes a comparison of the previous year financial results, status of the forestry reserve and an update on other forestry activities during the quarter.

Discussion and Analysis

1. Financial Results for Q2 2021

The forestry financial results are reporting a Q2 2021 net profit of \$991,250 (after fee/fund transfers) compared to the forecasted Q2 2021 net profit of \$585,773 and Q2 2020 net loss of \$520,100. The results for the quarter were due to higher timber sales values than forecast – average timber sale value was nearly \$40/m³ higher than budget.

Table 1 provides a summary of the quarterly results comparing, 2021 budget, 2021 actual, and 2020 actual.

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

Table 1: Comparison of Q2 2021 Budget versus 2021 Actual and 2020 Actual Financial Results

2021 Budget and Actual versus 2020 Actual

	2021 Q2		2020 Q2
	Budget	Actual	Actual
Timber Sales	\$ 1,680,000	\$ 2,009,316	\$ (17,999)
Waste Billing	-		16,174
Other Revenue	7,600	6,824	10,709
Total Revenue	\$ 1,687,600	\$ 2,016,140	\$ 8,885
Direct Logging Expense	599,349	628,397	175,524
Gross Margin	\$ 1,088,251	\$ 1,387,743	\$ (166,639)
Other Expenses	460,271	354,286	299,929
Net Profit (Loss) Before Transfers	\$ 627,980	\$ 1,033,457	\$ (466,568)
Transfers	42,207	\$ 42,207	53,532
Net Profit (Loss) After Transfers	\$ 585,773	\$ 991,250	\$ (520,100)
Timber Sales \$/m ³	\$ 70.00	\$ 110.47	\$ -
Waste Volume	-	-	-
Timber Sale Volume	24,000	18,189	-

2. Summary of the Strategies and Plans in 2021

Lumber prices reached their peak in the quarter; the Department released a large timber sale (25,000 m³) that closed on April 15th – the successful bid came in at \$2.8 million dollars gross. A second timber sale (18,000 m³) closed in mid-June, and came in at just over \$3 million dollars gross, which was significantly higher than forecast. We are also planning to release one more sale in the Fall; as a result, revenue in 2021 will be significantly higher compared to 2020.

- a. **Log revenue, marketing and sales** – The 2021 Q2 log sales revenues were \$2,009,316 against a budget of \$1,680,000 or \$70.00/m³. The increase in revenue from budget is attributed to the increase in value on account of record prices for lumber. Total revenue for the quarter was \$2,016,140 which included other miscellaneous revenues of \$6,824 .
- 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 \$29,048. This is due primarily to higher contract road costs (\$74,752), and higher materials costs (\$7,950). Higher contract road costs are due to higher rock blasting costs than forecast for the quarter, while higher materials costs are associated with excavator repairs and a culvert order made during the quarter. This was offset by lower stumpage costs (\$31,195), which reflect lower timber volumes harvested than forecast.
- c. **Other Expenses** – Other expenses for the quarter were lower by \$105,985 primarily due to Silviculture costs (\$81,581) and Patrols and Vandalism costs (\$26,669). Lower silviculture costs are due to delays in starting brushing activities, while lower Patrols and Vandalism costs are associated with not using security at the gatehouse on the Florence Lake FSR to date this year.

3. Forestry Reserve Status

The minimum recommended balance for the Forestry Reserve Fund per the District's Reserve and Surplus Policy (FIN.42) is \$1,000,000 and the optimum balance is \$1,500,000. The net balance on June 30, 2021 is \$2,963,565. Table 2 below provides a detailed summary of the Forestry Reserve. Note that accounting for the current silviculture liability has been initiated, which is the amount requiring funding should operations at the Municipal Forest ever come to an end. It's important to understand that the cost of silviculture activities comes out of the annual operating budget, but the recent financial audit recommended accounting for this liability against the reserve balance.

Table 2: Estimated Forestry Reserve Balance at 2021 Q2

Opening Reserve Balance at December 31, 2020	\$	3,022,616
Remaining contributions to Senior Centre (carried forward from 2020)		(248,786)
Capital Projects (carried forward from 2020)		(65,580)
Operating budget (carried forward from 2020)		(121,783)
Capital Projects (approved in 2021 Financial Plan)		(200,000)
Operating budget amendments approved in 2021		(31,514)
YTD Net Profit at June 30, 2021	\$	816,612
Estimated Reserve Balance at June 30, 2021	\$	3,171,565
*Current Silviculture Liability		(208,000)
Net Reserve Balance	\$	<u>2,963,565</u>

4. Highlights of Other Forestry Activities in Q2 and Outlook for 2021

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) No lost time accidents were recorded in the quarter.
- b) Completed a presentation on trees for students at Silverdale Elementary
- c) Worked with the Fire Department, BC Wildfire Service, and Mission Search and Rescue to complete a large mock fire drill, Operation FireStorm, in the Stave Falls area, in April. Completed a smaller fire drill in the Bear Mountain area in May.
- d) Shot footage for the video series on the Mission Municipal Forest
- e) Attended the grand opening of the Boswyk Centre, including a cheque ceremony acknowledging the \$1 million-dollar contribution from the Forestry reserve.
- f) Working with Purchasing and Fire Departments, finalized and awarded a contract to B.A. Blackwell and Associates Ltd. for Community Wildfire Prevention Services.
- g) In partnership with local First Nation communities, awarded \$250,000 in funding from UBCM for the development and training of an Indigenous Guardians Program, that will start in early 2022
- h) Finalized the book on the Tree Farm which is currently in printing and will be ready for release in the Fall.

5. Challenges and Opportunities for 2021

There are both positive outlooks and some challenges in 2021:

- a) Timber markets were at record levels in the first half of the year, and the Department took advantage of this by releasing 43,000m³ in two timber sales that received record bids – total gross revenue between the two sales was approximately \$5.9 million dollars. While lumber prices have dropped considerably to start Q3, they are still in a favorable position for our last timber sale to be put out in the Fall.
- b) The heat dome that started in late June has caused significant stress on our young plantations. Scientists have attributed the record temperatures to climate change; the department will be examining strategies to address these challenges moving forward, including, but not limited to, silviculture systems, stocking standards, and fire mitigation activities.

Financial Implications

The forestry financial results are reporting a Q2 2021 net profit of \$991,250. The opening forestry reserve balance as of January 1, 2021 was \$3,022,616. The available forestry reserve balance at June 30, 2021 is \$2,963,565 when accounting for the Seniors Centre Funding, Capital & Operating Carry Forwards, 2021 approved expenditures, and current Silviculture liability.



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

Summary and Conclusion

The forestry financial results are reporting a Q2 2021 net profit of \$991,250. The opening forestry reserve balance as of January 1, 2021 was \$3,022,616. The available forestry reserve balance at June 30, 2021 is \$2,963,565. The financial outlook for 2021 is extremely positive, due to record lumber prices in the first half of the year, and managing climate changed induced heat domes in the Municipal Forest is anticipated to be a significant challenge moving forward.

Report Prepared by: Chris Gruenwald, Director of Forestry

Reviewed by: Jocelynn Low, Accounting Supervisor

Approved for Inclusion: Barclay Pitkethly, Deputy Chief Administrative Officer

Attachment(s)

Appendix A: Forestry Operations Detailed Results 2021 Quarter 2

Appendix A

For the month and YTD ended June 30, 2021

	Budget		Actual		Budget		Actual	
	Q2	per m ³	Q2	per m ³	YTD	per m ³	YTD	per m ³
Timber Sales	\$ 1,680,000	\$ 70.00	\$ 2,009,316	\$ 110.47	\$ 1,890,000	\$ 70.00	\$ 2,350,757	\$ 98.15
Waste Billing	-		-		-		37,887	15.61
Other Revenues	7,600	0.32	6,824	0.38	9,500	0.35	7,332	0.28
Total Revenues	1,687,600	70.32	2,016,140	110.84	1,899,500	70.35	2,395,976	100.04
Direct Logging Expenses								
Contracts	19,999	0.83	6,166	0.34	39,999	1.48	9,439	0.39
Stumpage	408,000	17.00	376,805	20.72	459,000	17.00	439,490	18.35
Contract Roads	73,750	3.07	148,502	8.16	147,500	5.46	234,651	9.80
Salaries	52,013	2.17	44,663	2.46	104,026	3.85	112,834	4.71
Equipment	27,779	1.16	26,503	1.46	55,557	2.06	52,477	2.19
Materials	17,808	0.74	25,758	1.42	22,133	0.82	42,930	1.79
Total Direct Logging Expenses	599,349	24.97	628,397	34.55	828,215	30.67	891,820	37.24
Gross Margin	1,088,251	45	1,387,743	76.29	1,071,285	39.68	1,504,156	62.80
Other Expenses								
Administration	119,418	4.98	113,115	6.22	238,837	8.85	228,657	9.55
Silviculture	143,502	5.98	61,922	3.40	166,986	6.18	90,879	3.79
General	11,657	0.49	25,004	1.37	53,804	1.99	64,241	2.68
Stave West	45,689	1.90	78,593	4.32	89,748	3.32	92,213	3.85
Engineering	54,892	2.29	38,357	2.11	96,584	3.58	67,445	2.82
Patrols & Vandalism	40,980	1.71	14,311	0.79	48,100	1.78	16,645	0.69
Recreation	9,899	0.41	11,906	0.65	9,899	0.37	15,292	0.64
Mission Interpretive Forest	9,119	0.38	7,353	0.40	18,237	0.68	17,257	0.72
Other	25,116	1.05	3,727	0.20	38,345	1.42	10,500	0.44
Total Other Expenses	460,271	19.18	354,286	19.48	760,540	28.17	603,130	25.18
Net profit (loss) before transfers	627,980	26.17	1,033,457	56.82	310,745	11.51	901,026	37.62
Transfers to non-forestry reserves	-		-		-		-	
Admin Recovery Fee	42,207	1.76	42,207	2.32	84,414	3.13	84,414	3.52
Net Profit (Loss)	\$ 585,773	\$ 24.41	\$ 991,250	\$ 56.82	\$ 226,331	\$ 11.51	\$ 816,612	\$ 34.10
Gross Margin %	64%		69%		56%		63%	
Volume (m ³) Timber Sales	24,000		18,189		27,000		23,950	
Volume (m ³) Waste Billing	-		-		-		2,427	
Total Volume	24,000		18,189		27,000		26,377	