

To: Chief Administrative Officer
From: Chris Gruenwald, Director of Forestry
Subject: **Forestry Operations 2022 Quarter 1 (Q1) Report**

Date: June 6, 2022

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 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 2022 (January 1, 2022 to March 31, 2022).
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 2022. 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 Q1 2022

The forestry financial results are reporting a Q1 2022 net profit of \$83,981 (after fee/fund transfers) compared to the forecasted Q1 2022 net loss of \$335,387 and Q1 2021 net loss of \$174,638. The results for the quarter were due to both higher timber sales volumes and values than forecast - volume was 2,839 m³ higher than budget, while value was \$64.49/m³ higher than budget.

Table 1 provides a summary of the quarterly results comparing, 2022 budget, 2022 actual, and 2021 actual.

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

Table 1: Comparison of Q1 2022 Budget versus 2022 Actual and 2021 Actual Financial Results

2022 Budget and Actual versus 2021 Actual

	2022 Q1		2021 Q2
	Budget	Actual	Actual
Timber Sales	\$ 261,000	\$ 884,516	\$ 341,442
Waste Billing	-	35,257	37,887
Other Revenue	2,600	65,835	508
Total Revenue	\$ 263,600	\$ 985,607	\$ 379,837
Direct Logging Expense	241,616	620,845	263,423
Gross Margin	\$ 21,984	\$ 364,762	\$ 116,414
Other Expenses	313,508	236,919	248,844
Net Profit (Loss) Before Transfers	\$ (291,524)	\$ 127,844	\$ (132,430)
Transfers	43,863	\$ 43,863	42,207
Net Profit (Loss) After Transfers	\$ (335,387)	\$ 83,981	\$ (174,637)
Timber Sales \$/m ³	\$ 87.00	\$ 151.49	\$ 59.27
Waste Volume	-	1,075	-
Timber Sale Volume	3,000	5,839	5,761

2. Summary of the Strategies and Plans in 2022

Lumber prices continue to remain strong, primarily due to supply constraints; the Department has released a large timber sale (16,500 m³) in February that closed on March 10th – the successful bid came in at \$2.8 million dollars gross. A second timber sale (30,000 m³) closed on May 17th with the successful bid coming in at \$5.9 million dollars gross. We are also planning to release one more small sale in the Fall; as a result, revenue is forecast to be at record levels at the end of the year.

- a. **Log revenue, marketing and sales** – The 2022 Q1 log sales revenues were \$884,516 against a budget of \$261,000 or \$87.00/m³. The increase in revenue from budget is attributed to both the increased volume and value that was harvested during the quarter. Total revenue for the quarter was \$985,607 and included waste billing revenues of \$35,257 and other revenues of \$65,835.
- 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 \$379,229. This is due primarily to higher contract costs (\$277,403) and higher stumpage costs (\$191,884). Higher contract costs are due to using our contract logger to harvest the timber sale that started last fall and was completed in January. Higher stumpage costs reflect the strong timber markets in the Province.
- c. **Other Expenses** – Other expenses for the quarter were lower by \$76,589, primarily due to lower General costs (\$26,408) Road and Bridge Maintenance Costs (\$23,897) and Silviculture Costs (\$13,828). This is attributed to delays in starting these activities over the quarter so these savings shown will be reduced as the year progresses.

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 March 31, 2022 is approximately \$4,009,071. Table 2 below provides a detailed summary of the Forestry Reserve. Note that accounting for the current silviculture liability has been recorded, which is the amount requiring funding should operations at the Municipal Forest ever cease operations. 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. This liability will be adjusted annually as part of the year end process.

Table 2: Estimated Forestry Reserve Balance at 2022 Q1

Opening Reserve Balance at December 31, 2021	\$ 4,673,025
Remaining contributions to Senior Centre (carried forward from 2021)	(248,786)
Capital Projects (carried forward from 2021)	(116,438)
Capital Projects (approved in 2022 Financial Plan)	(350,000)
Operating budget amendments approved in 2022	(32,711)
YTD Net Profit at March 31, 2022	\$ 83,981
Estimated Reserve Balance at March 31, 2022	<u>\$ 4,009,071</u>

4. Highlights of Other Forestry Activities in Q1 and Outlook for 2022

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 first quarter are:

- a) No lost time accidents were recorded in the quarter.
- b) Official opening of Indigenous Guardians Training program on January 17th; the program wrapped up at the end of February, with four students graduating from the

program

- c) Tree planting commenced on March 23rd and was completed in April; 80,000 seedlings were planted this year.
- d) With Council support, purchased portable mill for the MSS Woodworking class. The mill was received in late April and the class is currently putting it together and expect to start milling wood in June.
- e) Completed tours of the Municipal Forest with the following classes:
 - i. BCIT Forestry – 2nd Year Engineering Class
 - ii. UBC Forestry – 3rd Year Operations Class
 - iii. MSS – Woodworking class

5. Challenges and Opportunities for 2022

There are both positive outlooks and some challenges in 2022:

- a) Timber markets are currently strong, due to high demand for lumber products as a result of global supply issues. The Department anticipates record profits in 2022.
- b) Stumpage prices have increased significantly starting in April, which is consistent with strong market prices for timber. While this is not currently a concern, any drop in markets could impact the viability of timber sales later this year and into 2023.
- c) Inflation is concerning, and the combination of high inflation and low unemployment has historically signaled a coming recession.
- d) Climate change impacts were felt strongly in 2021, both through the heat dome and atmospheric rivers. While the Municipal Forest was not significantly impacted by these events, there is a need to proactively plan for future extreme weather events.

Financial Implications

The forestry financial results are reporting a Q1 2022 net profit of \$83,981. The opening forestry reserve balance as of January 1, 2022 was \$4,673,025. The available forestry reserve balance at March 31, 2022 is approximately \$4,009,071, when accounting for the Seniors Centre Funding, Capital & Operating Carry Forwards, and 2022 approved expenditures.



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

Summary and Conclusion

The forestry financial results are reporting a Q1 2022 net profit of \$83,981. The opening forestry reserve balance as of January 1, 2022 was \$4,673,025. The available forestry reserve balance at March 31, 2022 is approximately \$4,009,071. The financial outlook for 2022 is extremely positive, due to strong timber markets, though there are potential signs of recession on the horizon.

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Reviewed by: Jocelynn Low, Accounting Supervisor

Approved for Inclusion: Mike Younie, Chief Administrative Officer

Attachment(s)

Attachment A: Forestry Operations Detailed Results 2022 Quarter 1

Appendix A

Detailed Forestry Operations Financial Results

For the 1st Quarter and YTD ended March 31, 2022

	Budget		Actual	
	YTD/Q1	per m ³	YTD/Q1	per m ³
Timber Sales	\$ 261,000	\$ 87.00	884,516	\$ 151.49
Waste Billing	-	-	35,257	32.79
Other Revenues	2,600	0.87	65,835	11.28
Total Revenues	263,600	87.87	985,607	168.81
Direct Logging Expenses				
Contracts	19,999	6.67	297,402	50.94
Stumpage	51,000	17.00	242,884	41.60
Contract Roads	87,500	29.17	-	-
Salaries	51,513	17.17	44,322	7.59
Equipment	27,779	9.26	26,307	4.51
Materials	3,825	1.28	9,929	1.70
Total Direct Logging Expenses	241,616	80.54	620,845	106.33
Gross Margin	21,984	7.33	364,762	62.47
Other Expenses				
Administration	121,960	40.65	117,305	20.09
Silviculture	24,430	8.14	10,602	1.82
General	43,381	14.46	16,973	2.91
Road & Bridge Maintenance	44,886	14.96	20,988	3.59
Engineering	46,388	15.46	50,003	8.56
Patrols & Vandalism	9,114	3.04	11,157	1.91
Recreation	-	-	975	0.17
Stave West	10,250	3.42	201	0.03
Other	13,100	4.37	8,715	1.49
Total Other Expenses	313,508	104.50	236,919	40.58
Net profit (loss) before transfers	(291,524)	(97.17)	127,844	21.90
Transfers to non-forestry reserves	43,863	14.62	43,863	7.51
Net Profit (Loss)	\$ (335,387)	\$ (111.80)	\$ 83,981	\$ 14.38
Gross Margin %	8%		37%	
Volume (m ³) Timber Sales	3,000		5,839	
Volume (m ³) Waste Billing	0		1,075	
Total Volume	3,000		6,914	