

FRAMEWORK DOCUMENT

A Guiding Document for the Establishment of a Local Forest Management Corporation for the Temagami Management Unit

Submitted to:

Honourable Jeff Yurek; Minister of Natural Resources and Forestry

By:

Temagami Tenure Modernization Advisory Team
September, 2018

1.0 Executive Summary

Overall, the proposed business model indicates financial viability and a likelihood of success contingent on the ability of the proposed Local Forest Management Corporation to retain the stumpage revenues from the sale of Crown timber, sell sufficient volumes of wood and secure access to a sufficient level of non-refundable start-up funding.

2.0 Introduction

The Temagami Management Unit ("TMU") has been continuously managed as a Crown Unit by the Ministry of Natural Resources and Forestry (MNR) prior to and since the Crown Forest Sustainability Act was passed in 1994. Several mills receive wood fibre from the TMU, but none of them are entirely dependent on the unit for their timber supplies. The forest industry has and continues to be an important and integral part of the local economy. The Temagami Advisory Team supports increased sustainable forest product use as a major opportunity to grow local economic benefits.

In late 2013, a Temagami Forest Modernization Advisory Team ("Temagami Advisory Team") comprised of 12 members equally represented by forest industry, First Nations and local Municipalities was formed to build consensus and recommend a long-term forest tenure model for the TMU to MNR. The following reports have been submitted to MNR by the Temagami Advisory Team:

- Phase I Report (FY 2014-15): Identification of an independent facilitator; assessment of available forest tenure options (including cost / revenue estimates); collective recommended option for the LFMC model.
- Phase II Report (FY 2015-16): Analysis of the LFMC tenure model, and application to the TMU, and group consensus to support and participate in the development of a stand-alone LFMC.
- Phase III Report (FY 2016-17): Detailed risk analysis, sensitivity and cash flows associated with the operation of a proposed Temagami LFMC.

A subset of the Temagami Advisory Team met with the Minister of Natural Resources and Forestry on July 26, 2017, to express their support and willingness to proceed with discussions to establish a Temagami Local Forest Management Corporation (LFMC) in accordance with the Ontario Forest Tenure Modernization Act (OFTMA). The Minister responded on November 29, 2017, to the members of the Temagami Advisory Team expressing interest to formally begin the process to propose the establishment of an LFMC for the TMU.

The development of this "Framework Document" has occurred in partnership with the MNR and the Temagami Advisory Team, to benefit the proposed establishment of a Temagami LFMC.

This Framework Document is intended to inform the development of the Treasury Board / Management Board of Cabinet submission (TB/MBC sub) and supporting materials necessary to seek government approval to establish the proposed Temagami LFMC model in 2018. MNRF would lead the drafting / approvals process of the TB/MBC sub.

The Temagami Advisory Team is aware the development and establishment of the proposed Temagami LFMC is dependent on TB/MBC approval to establish a new operational Crown agency and approval from the Lieutenant Governor in Council approval of amending the regulation under the *Ontario Forest Tenure Modernization Act, 2011* (OFTMA).

3.0 Fundamental Principles

The Temagami Advisory Team developed the following fundamental principles which reflect the goals and perspectives of the Team.

- To hold the Sustainable Forest Licence (SFL) and manage the TMU in a manner necessary to provide and promote for the long-term sustainability (ie. social, economic and environmental pillars) of the TMU;
- To increase local governance participation and provide opportunities for meaningful involvement of local First Nations and local municipalities;
- To develop a cost effective and sustainable business model;
- To favour local economic development opportunities that include, but are not limited to underutilized wood;
- To recognize and honour wood supply commitments and use;
- To facilitate full utilization of the allowable harvest volume;
- To recognize and respect the aboriginal and treaty rights of representative First Nations including recent case law;
- To promote the best end use of forest products produced from forested lands through innovation and technology;
- To promote a strong working relationship with the MNRF and other government departments, federal and provincial, including scientific and management support;
- To increase government investments directed towards enhancing local sustainability for forest management.

4.0 Desired Outcomes / Benefits

The Temagami Advisory Team developed the following desired outcomes / benefits which are intended to set out the expectations of the participants throughout the process.

- Strong local voice for municipalities, First Nations and forest industry partners;
- Ability to advance health, vitality and sustainability of Crown Forests.
- Voice to resolve complex issues locally;

- Shared accountability at a local level and partnership between municipalities, First Nations, and forest industry;
- Retention of Crown dues in local economy to further corporate objectives;
- Economic benefits to local municipalities and First Nations (jobs, training, capacity building, local contracts, etc.);
- Aggressive promotion and open marketing of underutilized forest products and improve utilization of available harvest;
- Lowest wood costs of all stand-alone forest tenure options;
- Potential to further reduce wood costs in cooperation with forest industry;
- Develop broader community outreach methods;

5.0 Conditions Precedent

The Temagami Advisory Team is satisfied with the following elements of an LFMC for the TMU, thus promoting as a collective, the proposal to proceed with the establishment:

- This proposed LFMC model would promote the long-term forest sustainability (ie. social, economic and environmental pillars) of the TMU;
- The financial viability of this proposed long-term forest tenure model;
- The economic development opportunities for Aboriginal communities and Municipalities;
- A governance structure with a strong local voice on the management of the forest.

6.0 Recommendations

Description of Proposed Governance Structure

- The Board of Directors would be responsible for the management and control of the Temagami LFMC mandate, fiscal oversight and business success.
- The Temagami Advisory Team values the key objective of tenure modernization to promote greater local community and indigenous involvement in the management of local forests to ensure that decision-making provides economic benefits to and reflects the interests of, those that live within or near the TMU.
- Subject to the discretion of the Minister, the Temagami Advisory Team recommends that six (6) seats on the Board would be “reserved” for a person nominated by each of the local Municipalities, local First Nations and local forest industry participants as defined by those that have the following attributes:
 - First Nations that have asserted rights and interest on the TMU, and
 - Local Municipalities that have direct reliance on the business of forestry from the TMU, and
 - Forest industry that have traditionally utilized or harvested wood from the TMU; and
 - Previous engagement in forest planning, operations, and / or forest tenure modernization efforts, and
 - Understanding of and support for the Objects of the LFMC, and

- Existing forestry related knowledge and capacity.
- Based on the screening of these criteria the initial Board of six will be represented from following:
 - Two (of the six) reserved seats for the local First Nations (Teme-Augama Anishnabai / Temagami First Nation, Timiskaming First Nation, Matachewan First Nation); one (of these two) reserved seats set aside for Teme-Augama Anishnabai / Temagami First Nation; the other Director seat will be rotated amongst Matachewan FN / Timiskaming FN) or as otherwise supported by these First Nations.
 - Two (of the six) reserved seats for the local municipalities (Municipality of Temagami, Town of Latchford, Township of James (Elk Lake), City of Temiskaming Shores); one (of these two) reserved seats set aside for the Municipality of Temagami; the other Director seat will be rotated amongst Town of Latchford, Township of James (Elk Lake), City of Temiskaming Shores, or as otherwise supported by these Municipalities., and
 - Two (of the six) reserved seats for the forest industry partners (Georgia-Pacific - Englehart, EACOM Timber Corporation – Elk Lake Sawmill, Goulard Lumber – Sturgeon Falls Sawmill, Alex Welch Logging).
- Subject to the above, the First Nations will collectively determine the most appropriate means to nominate these two reserves seats; the local municipalities and the forest industry partners will also collectively determine their own respective processes for nominating their reserves seats.
- In the event that the members do not wish to fill the reserved seats the permanent board will determine the most appropriate means of addressing these vacancies.
- In addition to the six reserved seats on the permanent Board, up to three additional “members at large” should be permitted, to support the Board in their efforts to secure additional skillsets and qualifications (e.g. legal, accounting/financial). The need for filling these “members at large” seats would be supported by the permanent Board.
- All Board members would need to meet the identified skills and qualifications required for Board appointment in one or more of the following areas:
 - Knowledge and understanding of local First Nations, Municipalities, forest practices, and issues pertaining to the TMU
 - Demonstrated leadership
 - Facilitation, communication, and interpersonal skills
 - Negotiation experience
 - Corporate governance or previous board experience
 - Forestry knowledge / experience (management, planning, business, etc.)
 - Finance / accounting
 - Management
 - Law
 - Business
 - Human resources
 - Information management
 - Natural resource management and / or environmental science / Traditional Aboriginal knowledge

- Collaboration
- Conflict / issue resolution
- Organizational / program development
- The Temagami Advisory Team is aware that the Ontario Public Appointment Process (PAS) is an open and inclusive process, but will suggest to the PAS to consider a locally based nomination process, which will feed into the PAS. This local nomination process will recommend an appropriate Chair, Vice-Chair, and if applicable members-at-large based on desired skills and qualifications, to be considered by the Minister during the PAS.
- If a reserved seat is empty, it would be held vacant until a suitable candidate is found.
- Candidates for the Board should be non-head of Council (i.e. Not Chiefs / Mayors); councilors or other community members would be permitted if they meet the desired skill sets and qualifications.
- The Board may establish Board and Advisory Committees over time to benefit the function of the Agency in its decision making; examples include but are not limited to: Human Resources Committee, Stakeholder Advisory Committee, and Forest Operations Committee.
- The term of Board members will reflect the maximum term allowed (3 years with re-appointments permitted), and the Board will consider a rotational / staggered approach for vacancies as appropriate to avoid attritional impacts.

Description of the Proposed Business Model

- A preliminary business model was developed to a). support the business case and operational assumptions and b). assess the viability of the proposed LFMC. The business model was informed and validated by the Financial/Business Model Task Team and built on information and assumptions of the Temagami Management Unit at the time of development including input from existing and its potential wood fibre customers.
- The preliminary business model will be used to support government approvals related to the establishment of the LFMC and to inform other aspects of the proposed LFMC such as the establishment of an operating reserve, options for start-up financing, and policies and procedures for the use of surplus revenues.
- The Advisory Team acknowledges that the actual business model of the LFMC would be determined by the permanent Board of Directors and General Manager and recognizes the need to ensure sufficient flexibility in the preliminary design and operational assumptions.
- Overall, the proposed business model indicates financial viability and a likelihood of success contingent on the ability of the LFMC to retain the stumpage revenues from the sale of Crown timber, sell sufficient volumes of wood and secure access to a sufficient level of non-refundable start-up funding.
- Refer to the "Proposed Business Model Report Back Summary" dated August 29, 2018 for more information.

Transitional Items – SFL Liabilities and Obligations

- The Crown must continue to work towards reducing the existing obligations and liabilities on the forest (e.g., continue to prioritize work related to the Long-Term

- Infrastructure Plan and outstanding silviculture obligations), including the timely disclosure of any new obligations/ liabilities as they become known.
- Given incomplete inventories, there is a degree of uncertainty with the status of the infrastructure and the future costs of the outstanding silvicultural obligations. This will need to be revisited before the Corporation assumes any liabilities.
 - Based on partial information and incomplete inventories reviewed to date, the current status of potential silviculture and / or infrastructure liabilities do not appear to threaten the financial viability of the proposed LFMC model.
 - The proposed LFMC model cannot withstand unforeseen cost(s) related to silvicultural and/or infrastructure liabilities. The Crown may be required to adjust the non-refundable start-up funding to mitigate this financial risk and must agree to work in good faith with the Corporation in its negotiation for the SFL to ensure financial viability is not compromised.
 - The Board will be responsible for negotiating what if any obligations/liabilities will be assumed with the best interests of the Corporation in mind, prior to the issuance of the SFL.

Transitional Items – Establishment of the Operating Reserve

- A reserve in a range equivalent to at least 2-years of operating costs is reasonable.
- "Operating costs" determined based on the annual costs of running the business less reasonable recoveries (revenues) from other programs.
- An operating reserve that accounts for a shortfall of between 50%-75% of planned revenues should be sufficient to cover operating costs and manage the risk of a downturn in the local industry.
- Based on the 9-year average of operating costs and a 50% reduction in planned revenues, the Task Team feels that an operating reserve in the amount of ~\$500,000 should be established by the LFMC.
- This operating reserve should be established as quickly as possible in order to effectively manage the risk to the LFMC.
- The timely establishment of the operating reserve should not be passed onward to forest industry through increased management fees and should not cause excessive delays in the ability to utilize available revenues to support the furthering of other LFMC objects.
- Based on a non-refundable start-up funding of \$403,542 it is projected that a 2-year operating reserve can be reached by Jan 2021; without a non-refundable start-up support, the TFMC is forecasted to run out of money by Sept 2019 and would remain cash negative for 6-7 months before establishing positive cash flows. In other words, the TFMC would not be able to support itself financially without the injection of a non-refundable start-up funding of \$403,542.

7.0 Available Provincial Support

Interim Support (Board and Staff)

- An Interim Board comprised of OPS employees will be appointed to help expedite establishment of the agency. These OPS members would not receive any additional remuneration in this role.

- The Temagami Advisory Team supports the idea of an short-term Interim Board and Interim Staff to facilitate the start-up of the TMFC Agency, supported by MNRF, subject to:
 - The Temagami Advisory Team will continue to function during this interim period until the permanent Board is appointed and will provide advice to the Interim Board on any decisions. Temagami Advisory Team representatives will be permitted to attend Interim Board meetings as advisors.
 - The term of the Interim Board will end once the permanent Board has been appointed by Government.
 - Strategic decisions will be taken by the permanent appointed Board; this interim Board will focus on items to benefit start-up (i.e. drafting initial by-laws, drafting MOUs, drafting compensation strategies, establishing bank accounts / insurance, approving transition of funding from the Forestry Futures Trust / Special Purpose Account).
- At the same time, the Temagami Advisory Team in collaboration with the interim Staff would begin the process of recruiting qualified individuals to apply for positions on the permanent Board. This permanent Board would be established through Minister's prerogative appointments subject to the PAS.
- The permanent Board will immediately focus on the hiring of a permanent General Manager.

Non-Refundable Start-Up Funding Requirements

- Even though the modeling shows viability over the long-term, non-repayable start-up funding is required to support the up-front working capital needs and manage financial risk to the TFMC during initial phase of establishment and operations. Without up-front funding support, the TFMC is forecasted to run out of money by Sept 2019.
- This non-repayable funding would supplement the revenues available from the early implementation of the LFMC revenue model and contribute to the agency's ability for the timely establishment of its operating reserve.
- Additionally, the financial/business model task team has identified a number of establishment risks that could negatively impact cash flow during the 18-month start-up period (i.e.: delay in government approvals for LFMC establishment, delay in 2019-29 Forest Management Plan implementation, unrealized receivables, unforeseen obligations, etc.).
- Based on this analysis, the task team recommends that non-repayable start-up support in the amount of \$403,542 be provided to the TFMC to support its establishment and operation. *This amount is critical to the likelihood for success and any deviation would need further analysis.*
- While not a preferred option, the task team has identified the potential, similar to what occurred on Nawiinginokiima Forest Management Corporation (NFMC), to utilize interim staff/GM for longer periods than forecast as an additional measure to mitigate against the financial risks during the start-up period.

- During the start-up period, the Corporation will explore availability of other sources of funding (e.g. federal, provincial, municipal, etc.) that might be available to provide additional support for its establishment and operations.

8.0 Existing Rights to Crown Timber

- The Temagami LFMC will recognise existing and proposed wood supply directives (i.e. Wood Supply Competitive Process conditional offers), historic utilization, service provider agreements and the current District Wood Disposition Strategy, which is currently in place until such time as it is update and/or replaced.
- To support the drafting of the Sustainable Forest Licence (SFL) business plan, the Corporation requires the existing wood supply commitments and arrangements on the TMU be provided by the Ministry.
- The Temagami LFMC plans to market, sell and enable access to a predictable and competitively priced supply of Crown forest resources.
- The Temagami LFMC will develop mechanisms and procedures to ensure all volumes are used or made available for use to facilitate full utilization of the allowable harvest volume.

9.0 Communications and Confidentiality

- In discussions with MNRF the Temagami Advisory Team supports the following communications and engagement opportunities:
 - Public Notification through the Environmental Registry / Regulatory Registry (MNRF to lead);
 - Community Engagement sessions with local Municipalities (Temagami Advisory Team to lead);
 - Indigenous Notification / Consultation (MNRF to lead);
 - Community Engagement sessions with local First Nations (Temagami Advisory Team to lead).

The Temagami Advisory Team supports the idea of working collectively with MNRF on all public announcements related to the establishment of this LFMC for the TMU, including First Nations and community engagement sessions.