

Pages 1 through 3 redacted for the following reasons:

Not Responsive

Not Responsive

Poole

- privatization issues (T&H and nurseries) to be discussed at Cabinet next week

.../4

Pages 5 through 6 redacted for the following reasons:

Not Responsive



MINISTERS' EYES ONLY

CABINET AGENDA Province of British Columbia
CABINET

DATE: Wednesday, December 23, 1987
TIME: 9:00 p.m. - 5:00 p.m.
LOCATION: Cabinet Chambers, Victoria
LUNCH WILL BE SERVED

ITEM	MINISTER	TAB
1. Privatization Issues - Nurseries/Silviculture Policy - Soil and Tissue Lab	Premier	TAB 1
2. Forest Policy Review	Honourable Dave Parker	TAB 2

Not Responsive

Kathleen A. Maugh
Secretary to Cabinet

December 23, 1987
Date

Privatization Issues

Attached is a submission concerning silviculture policy and the sale of the nurseries.

Material on the soil, feed and tissue laboratory will be distributed at the meeting.

MINISTRY OF FINANCE AND CORPORATE RELATIONS
FINANCIAL IMPACT ASSESSMENT

SUBJECT: Ministry of Forests and Lands; Outstanding Silviculture Obligations. (Submission Date: December 11, 1987.)

FINANCIAL IMPACT:

Background

- The ministry's request for funding to address outstanding silviculture obligations results from direct and indirect effects of the recent changes to the provincial forest policy.

	<u>1988/89</u>	<u>1992/93</u>	<u>Balance of Obligation</u>	<u>Total</u>
	-----\$ millions-----			
- Pre-October 1, 1987 Industry Obligations	107.3	269.8	30.2	407.3
- Small Business Enterprise Obligations	21.3	47.1	7.1	75.5
- Major Fire and Pest Obligations	3.5	22.0	10.0	35.5
- Ministry Brushing Obligations	<u>7.3</u>	<u>49.2</u>	<u>17.4</u>	<u>73.9</u>
Total	<u>139.4</u>	<u>388.1</u>	<u>64.7</u>	<u>592.2</u>

Revenues

- None.

Staffing

- Not applicable.

Financial Risks

- Funding of the proposed level would likely strain silviculture industry capacity and result in higher unit costs for planting, site preparation and stand tending. This would inflate the above estimates of cost.

Indirect Effects

- The forest industry is closely following ministry silviculture activities and obligations in light of the new forest policy. In the event the ministry does not appear to comply with provincial policy, industry may criticize the government for non-compliance with its own standards.
- In the event the Province chooses not to fund outstanding obligations, nursery privatization efforts will be at risk (due to a reduced demand for seedlings) to the extent provincial silviculture funding is reduced.
- The efficiency of forest resources is dependent on an appropriate level of reforestation activity. In the event the province does not address outstanding obligations, the future productivity of the areas associated with outstanding obligations will be affected.

SOURCE OF FUNDS:

- No funding is currently available in the ministry's base budget. Full or partial approval would require an increase to the ministry's 1988/89 budget and will result in funding pressures in future years.

December 14, 1987

SUMMARY IMPACT OF SILVICULTURE FUNDING
ON FOREST NURSERY PRIVATIZATION

<u>FUNDING LEVEL</u>	<u>NUMBER OF SEEDLINGS SOWN</u>	<u>PRIVATIZATION IMPACT</u>
\$139 million	177.5 million total 50 million privatization contracts	-provides multi-year contracts for 9 nurseries at 60-65% of capacity. Privatization viable.
\$133 million	175 million total 47.5 million privatization contracts	-as above.
\$125 million	156.5 million 29 million privatization contracts	-provides contracts at 9 nurseries at only 40% of capacity; successful business case at all 9 nurseries cannot be developed at this level.
\$ 80 million	121.8 million Ø privatization contracts	-no seedling contracts available and privatization not possible for any of the 9 nurseries.

0008P-55

CONFIDENTIAL DOCUMENT

CABINET SUBMISSION

PAGE 1 OF 4

MINISTRY OF FORESTS AND LANDS

DECEMBER 11, 1987

PURPOSE:

The new direction in Forest Policy recently announced, places responsibility for basic silviculture on the forest industry. Government must now make clear its commitment to: Basic silviculture on areas logged prior to the effective date of the new policy direction; and the extent of ongoing Government responsibility for reforestation.

This Submission identifies four programs with outstanding basic silviculture requirements that should be considered Government obligations.

BACKGROUND:

Recent forest policy decisions have resulted in the following:

- (1) The forest industry will be responsible for funding all basic silviculture on areas harvested after October 1, 1987, under major tenures with the Government accepting funding responsibility on areas harvested before this date.
- (2) A new Small Business Enterprise Account will fund all basic silviculture on areas harvested after January 1, 1988, on competitive sales and minor tenures. To be resolved is the issue of the Government accepting funding responsibility on areas harvested before this date.
- (3) The Ministry will retain responsibility for reforestation on major areas destroyed by fire, insects or disease where salvage is not economical or not feasible under normal tenure.
- (4) Related to recent policy decisions, but more directly coming from past policy is the need to bring new forests established under old tenures to a free-growing state. Free-growing was not a condition of many earlier tenures. A Ministry brushing program is required to do this.

MINISTRY OF FORESTS AND LANDS

DECEMBER 11, 1987

FINANCIAL IMPACT:

Related to these outstanding basic silviculture requirements are the following programs, with total expenditures of \$ 139.4 million in 1988/89.

SILVICULTURE Requirement	COST		BENEFITS	
	5-Yr Total	Ann. Econ.* Activity	Total Direct** Employment	
	88/89	Generated	(Person-Yrs.)	

1. Industry	107.3	377.1	\$100 M/Yr.	7,128
Pre-Oct 1/87			for 80 yrs.	

2. Small Business Enterprise/ Minor Tenures pre-Jan 1/88	21.3	68.4	\$17.7 M/Yr.	1,255
			for 80 yrs.	

3. Catastrophic Fire & Pest.	3.5	25.5	\$6.6 M/Yr.	324
			for 80 yrs.	

4. Ministry Brushing	7.3	56.5	\$14.3 M/Yr.	1,691
			for 80 yrs.	

TOTAL	139.4	527.5	\$138.6 M/Yr	10,398
	=====	=====	=====	=====

* Total economic activity annually generated based on AAC Supported.

** Employment related to planting trees.

IMPACT IF NOT APPROVED:

1. Industry - Pre - October 1, 1987

- currently projected harvest levels could not be maintained - backlog NSR will increase.
- there will be no funding to plant 124 million trees ready for planting in 1988.
- these trees would have to be destroyed.
- Nursery privatization initiatives made impossible due to reduction in demand for seedlings.
- Government commitments to industry will not be met.

2. Small Business Enterprise Program

- currently projected harvest levels could not be maintained. Future SBEP program revenues will be reduced.
- there will be no funding to plant 19 million trees ready for planting in 1988.
- Nursery privatization initiatives jeopardized due to reduction in demand for seedlings.

3. Catastrophic Fire and Pest.

- currently projected harvest levels in Invermere and Williams Lake TSA's could not be maintained.
- does not appear to be essential to support nursery privatization.

4. Ministry Brushing

- currently projected harvest levels could not be maintained.
- investments of approximately \$30 million in existing plantations will be lost entirely; returns from additional \$60 million invested delayed considerably.

ALTERNATIVES:

Government could reduce its annual funding provision for these outstanding basic silviculture requirements. The less funding made available, the greater the loss of forest productivity and the loss of benefits from previous Government investments in basic silviculture. Alternative funding levels are listed under Attachment A.

The industry pre-October 1, 1987, obligations program is expanded in the attached Cabinet Submission (Attachment B), dated November 19, 1987.

POLITICAL IMPACT:

Under the new Forest Policy, Government requires industry to reforest logged areas to a "steady state" level. Industry will, no doubt, expect Government to reforest, to the same level, areas logged prior to implementation of the new Forest Policy.

To successfully establish a new forest after harvesting, the program must be kept in balance, with adequate funding for seed production, site preparation, planting and plantation maintenance. Any significant cut to one program element would throw the program out of balance.

In addition, it should be emphasized that the entire success of the privatization of the 9 forest service nurseries is dependant upon maintaining or exceeding the current seedling production level of 200 million seedlings per year. Failure to approve the funding for the silviculture obligations outlined in this Submission means all these nurseries cannot be privatized. As the Ministry is contractually committed to specific seedling production levels with commercial nurseries, partial funding of this request means the reduced seedling production will affect only the 9 nurseries which Government is seeking to privatize.

W-504

OPTIONSDESCRIPTIONSIMPACT

- Option 1 - 133 Million
- cuts catastrophic program entirely
 - cuts repression spacing goal entirely

- Benefits of the catastrophic fire and pest. program would be lost or delayed.
- Approximately 7800 ha repressed (in grow to a totally non-productive level).

		Goals	\$ M
		(000's ha)	
Option 2 - 125 Million	- cuts surveys	98	1.1
	site prep	12	3.1
	seedlings	18.5 M	3.2
	brushing	1.4	0.6
			8.0

- Eliminates nursery privatization contracts for one half of nurseries to be sold. (This level supplies funding for 156.5 of 177 total seedlings required).

Option 3 - 110 Million	- cuts surveys	179	2.0
	site prep	23	5.8
	seedlings	34.7 M	6.0
	brushing	2.8	1.2
			15.0

- Eliminates nursery privatization contracts entirely (provides funding for 121.8 of 147 total required).

Option 4 - 80 Million	- cuts surveys	321	3.7
	site prep	40	10.5
	seedlings	62.4 M	10.9
	seed orchards	-	2.7
	brushing	5	2.2
			30.0

- Two retained ministry nurseries will be empty. Commercial contracts broken.
- Seed orchard and tree improvement programs eliminated. Previous investments lost.

Option 5 - Less than 80	- residual program at \$ 80 Million		
	planting trees on-line		\$52 M
	site prep for future tree on-line		10
	payment of seedlings on-line		5
	surveys		1
	brushing existing plantations		12
			\$80 M

CABINET SUBMISSION

Ministry: FORESTS & LANDS

Date: November 19, 1987

PURPOSE:

This submission identifies a program to eliminate government funding responsibility for basic silviculture on areas harvested by industry prior to October 1, 1987 under major forest tenures.

BACKGROUND:

Recent forest policy changes transfer responsibility for silviculture funding effective October 1, 1987 from government to industry on areas harvested under major forest tenures. Allowances for silviculture costs will be included in timber appraisals commencing October 1, 1987. Normally, the forest industry would have reforested the areas harvested prior to this time and the costs would have been offset against stumpage payable under Section 88 of the Forest Act. Recent Policy changes, however, have made basic silviculture ineligible for Section 88. This has left outstanding basic silviculture obligations on areas logged prior to October 1, 1987 with neither appraisal allowances nor Section 88 offsets.

Estimates indicate that approximately 350 000 ha of area harvested prior to October 1, 1987 will require planting along with associated site preparation and brushing activities. Total costs are in the order of 377 million dollars over a five-year period. Should nothing be done, total yield lost over time is projected to be 46.6 million m³. AAC reductions in the order of 500 000 m³ annually will result.

DISCUSSION:

Initially it was assumed that industry would be responsible for funding these outstanding silviculture obligations as well as newly incurred obligations. However, more recently it has been decided that the government will accept funding responsibility for the work from pre October 1987 logging.

It is proposed that the government budget on a 5-year profile to eliminate Industry's outstanding silviculture obligations on areas harvested prior to October 1, 1987. Such funding would not allow for any overhead costs to the industry.

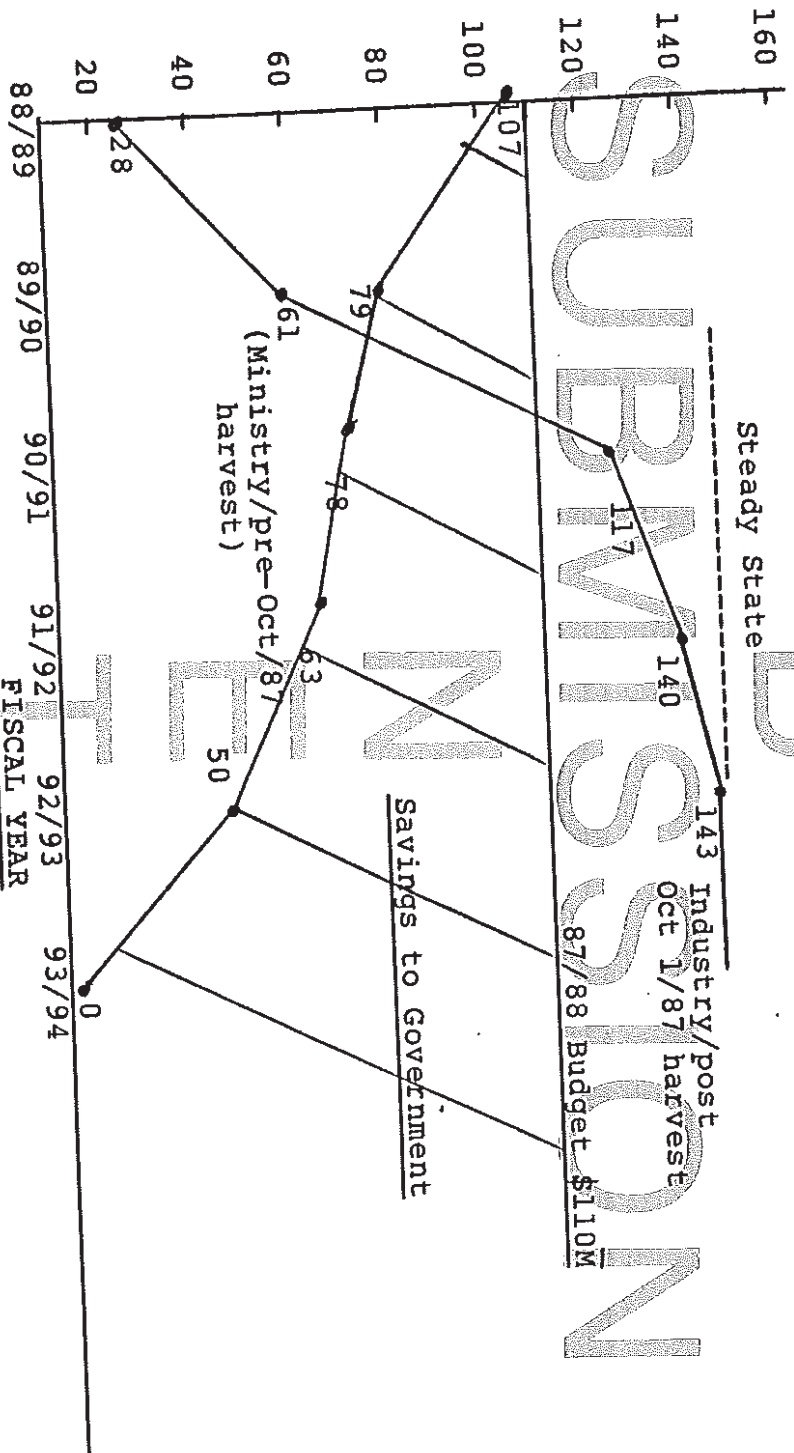
FINANCIAL IMPLICATIONS:

In fiscal year 1987/88 approximately 110 million dollars has been budgeted by government for basic silviculture associated with industry obligations. This amount, as in previous years, was insufficient to meet all Steady State silviculture needs, resulting in a build-up of outstanding obligations.

Although there is a clear cut-off date for transferring future obligations to industry (October 1, 1987), it will take time to retire the government's existing funding obligations. The attached sheet entitled 'Typical Time Sequence of Basic Silviculture Activities' shows the time lines associated with reestablishing a new forest.

The following chart illustrates the costs of a program to eliminate government silviculture funding obligations on areas harvested prior to October 1, 1987 in relation to industry's increasing silviculture expenditures on areas harvested after October 1, 1987.

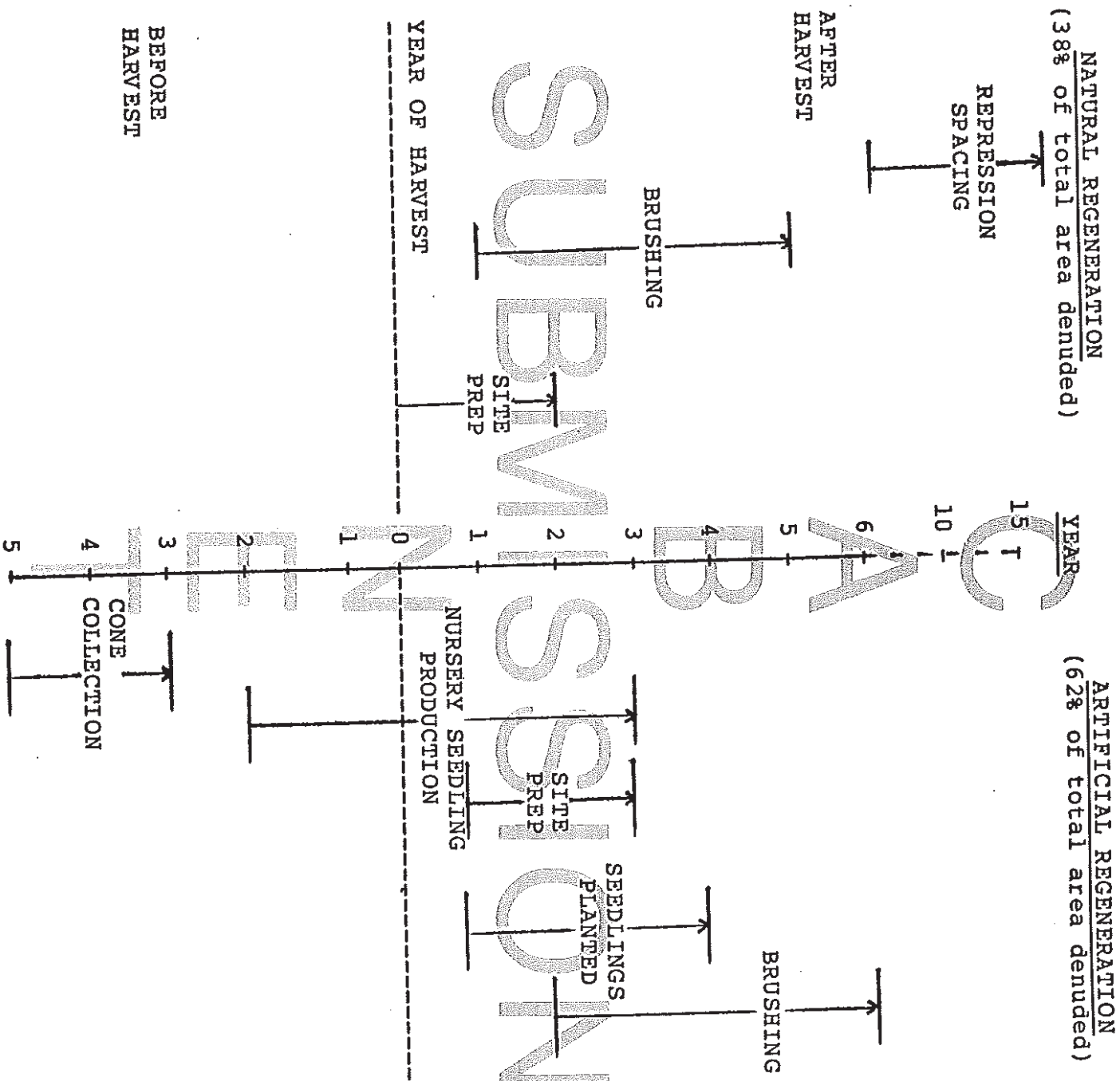
Future savings to government are illustrated by the shaded area.



LEGISLATIVE IMPLICATIONS:

If the forest industry is to be made responsible for the costs of its outstanding basic silviculture obligations, this retroactive requirement would have to be included in revised Forest Act legislation and new regulations under Section 145 which are presently being prepared for the November 1987 Legislative Session.

TYPICAL TIME SEQUENCE OF BASIC SILVICULTURE ACTIVITIES
FOR NATURAL AND ARTIFICIAL REGENERATION



MUNICIPAL OR REGIONAL IMPLICATIONS: N/A

FEDERAL/PROVINCIAL GOVERNMENT IMPLICATIONS:

If these outstanding basic silviculture obligations are not funded, the backlog of not satisfactorily restocked (N.S.R.) land will increase. The current Forest Resource Development Agreement has stated that the Provincial Government of British Columbia will not increase the amount of backlog N.S.R.

POLITICAL IMPLICATIONS:

Currently projected harvest levels will have to be reduced if basic silviculture operations are not carried out on these 350 000 ha of productive forest land by an estimated 500,000 m³/year.

The government will be criticized for not meeting the intent of their new policy statements (ie. a commitment of reforesting areas harvested) if these outstanding obligations are not met.

If the forest industry is made responsible for the costs of these obligations, this will be a further significant cost burden to the industry in addition to the present obligations for current silviculture costs and increased stumpage charges.

The current seedling program level is 200 million trees. In order to successfully privatize Ministry nurseries, this program level or higher must be maintained. The program identified in this submission is essential to maintaining the required total seedling level, and will create a positive climate for nursery privatization.

RECOMMENDATIONS:

It is recommended that the government provide funding related to industry outstanding silviculture obligations on areas harvested prior to October 1, 1987 on the following schedule:

<u>YEAR</u>	88/89	89/90	90/91	91/92	92/93
<u>\$M</u>	107	79	78	63	50


MINISTER OF FORESTS & LANDS

CONFIDENTIAL DOCUMENT

SUMMARY OF DECISIONS

CABINET

December 23, 1987, VICTORIA, B.C.

1. Privatization Issues

- Nurseries/Silviculture Policy
- Approved expenditure of \$107M in 1988/89

2)

3)

Not Responsive

4)

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Pages 24 through 25 redacted for the following reasons:

Not Responsive



MINISTERS' EYES ONLY

CABINET AGENDA Province of British Columbia
CABINET

DATE: Wednesday, January 13, 1988
TIME: 9:00 a.m. - 2:00 p.m.
LOCATION: Cabinet Office, Vancouver
LUNCH WILL BE SERVED

ITEM	MINISTER	TAB
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1. Privatization Issues Premier TAB 1

Not Responsive

Kathleen A. Murphy
Secretary to Cabinet

January 13, 1988
Date

Privatization Issues

Material to be distributed at the meeting.

CABINET SUBMISSION

PROVINCIAL FOREST NURSERY PRIVATIZATION PROJECT

REQUEST:

Approval to proceed to public proposal call stage for Koksilah Nursery in Duncan and Green Timbers Nursery in Surrey.

BACKGROUND:

Employee proposals have been received at 7 of the 9 provincial forest nurseries and negotiations will commence shortly. No employee proposals have been received for the 2 nurseries at Duncan and Surrey. Many expressions of interest have been received in regard to the Provincial nurseries and all enquiries have been advised that a public proposal call will be issued where no acceptable proposals have been received from employee groups.

RECOMMENDATIONS:

- 1) Approve advertisement and release of proposal call documents commencing the week of January 18, 1988;
- 2) Proposal call will stress continuity of employment for existing nursery staff;
- 3) Proposals will only be entertained where land use is compatible with nursery/agricultural purposes;
- 4) Only those lands and assets directly related to the traditional nursery operations at Duncan and Surrey will be available for sale;
- 5) A non-refundable \$50.00 fee will be charged to secure an extensive package of information that will accompany the proposal call document.

SUMMARY OF DECISIONS

CABINET

January 13, 1988, VANCOUVER, B.C.

1. Privatization Issues

Not Responsive

- d) Forest Nursery Privatization
- Are negotiating with employee groups for 7 of 9 nurseries.
 - Proposing to call for bids for the other two.
 - Cabinet approved fee for proposal call package.
 - Availability of seed.
 - Distribution will still be handled by the Ministry of Forests & Lands.
 - Surrey Council has expressed interest in purchasing land (Tall Timbers Nursery) to preserve as a park.
 - Could also sell land that the Koksilah Nursery sits on.
 - Would close both nurseries.
 - Government may have a labour relations problem if they close the nurseries, sell the land and purchase seedlings from private sector.
 - May violate contracting out provisions of B.C.G.E.U. contract/further investigation is needed.
 - Poole to obtain appraisals for land.
 - Report back to Cabinet.

Not Responsive

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MINISTERS' EYES ONLY

CABINET AGENDA Province of British Columbia
CABINET

DATE: Wednesday, January 20, 1988
TIME: 9:00 a.m. - 3:00 p.m.
LOCATION: Cabinet Chambers, Victoria
LUNCH WILL BE SERVED

ITEM	MINISTER	TAB
1. Privatization Issues	Premier/ Implementation Committee	TAB 1
- Process for Privatization Projects		

Not Responsive

January 20, 1988
Date

Kathleen A. Maugh
Secretary to Cabinet

CABINET

NO PAPER

SUMMARY OF DECISIONS

CABINET

January 20, 1988, VICTORIA, B.C.

1. Privatization Issues
 - Process approved

Not Responsive

Page 33 redacted for the following reason:

Not Responsive



MINISTERS' EYES ONLY

Province of British Columbia

OFFICE OF THE PREMIER

CABINET AGENDA

DATE: Wednesday, February 3, 1988
TIME: 9:00 a.m. - 12 noon
LOCATION: Cabinet Chambers, Victoria

ITEM	MINISTER	TAB
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Not Responsive

5. Privatization Issues

Implementation Committee

TAB 5

Not Responsive

Secretary to Cabinet

February 3, 1988

Date

Page 35 redacted for the following reason:

Not Responsive

5. Privatization Issues

Nurseries

- Approved proposal call for six of the nine nurseries.
- Approved negotiations to proceed with employee proponent regarding Telkwa Nursery.
- Approved Ministry of Forests & Lands to negotiate with municipalities re land transfer or sale of land in Duncan and Surrey.

Not Responsive

MINISTRY OF FINANCE AND CORPORATE RELATIONS
FINANCIAL IMPACT ASSESSMENT

SUBJECT: Ministry of Forests and Lands; Nursery Privatization
(Submission Date: February 2, 1988.)

FINANCIAL IMPACT:

Background

- . The Privatization Group recommends:
 - that Cabinet approve the testing of the employee consortium bid (involving six of the nine nurseries up for privatization) in the open market through a proposal call;
 - the Group proceed to negotiate with an employee proponent regarding the privatization of the Telkwa Nursery; and
 - an approach to sell or transfer lands and/or operations associated with the Koksilah Nursery in Duncan and the Green Timbers Nursery in Surrey.

Gross Outlays

- . None.

Revenues

- . None.

Staffing

- . Not applicable.

Financial Risks

- . None.

Indirect Effects

- . The proposal to solicit bids from the open market may result in higher revenues.

SOURCE OF FUNDS:

- . Not applicable.

February 2, 1988

CABINET SUBMISSION

FEBRUARY 2, 1988

Page 1

MINISTRY: PRIVATIZATION GROUP

DATE: FEBRUARY 2, 1988

PURPOSE:

- 1) To advise Cabinet on the status of employee proposals for seven of the nine nurseries being privatized and seek direction on next steps.
- 2) To propose a strategy to deal with the Duncan and Green Timbers (Surrey) nurseries.

BACKGROUND:

Of the nine nurseries available for privatization, employee groups have submitted proposals on seven. No valid employee groups came forward to bid on the nurseries at Duncan or Green Timbers. Employee proposals to date involve:

- 1) Consortium of six nurseries (Campbell River, Chilliwack, Vernon, Harrop, Prince George and Terrace) involving equity participation by 90% of the regular staff at these nurseries and led by two senior managers from the Silviculture Branch.
- 2) Sole regular employee at the very small nursery in Telkwa.

With regard to Duncan and Green Timbers, Cabinet direction has been received to attempt to negotiate a land sale or transfer with the two local governments involved.

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CABINET SUBMISSION

FEBRUARY 2, 1988

Page 2

DISCUSSION:

1. CONSORTIUM BID

The proposal received from the group of six is very satisfactory in many respects; highlights are:

- a) involves as shareholders most regular employees, some auxiliary employees, and two contractors presently working at the nurseries
- b) shareholders will contribute \$.5 million in direct equity and corporate share structures have been designed to prevent control being taken by any party within or outside the consortium
- c) ensures employment to all current regular and auxiliary staff, regardless of their participation as shareholders
- d) the business plan is very well conceived and managerial resources are either immediately available within the group or are forecast to be secured
- e) the consortium anticipates and accepts need for covenants on the land to restrict use in the near term.

The substance of the consortium offer is summarized as follows:

- a) \$3.5 million total sale price with \$3 million long term debt financed externally
- b) ten year seedling contract from the Province at 60 million seedlings per year for first five years and decreasing by 20% per year from years six thru ten

CABINET SUBMISSION

FEBRUARY 2, 1988

Page 3

- c) seedling price at blended rate of 14.5 cents plus 1 cent for capital replenishment
- d) 15% per year discount to cash flow attributable to business uncertainty and risk
- e) provision for start-up costs estimated at \$300,000 and hedge against "uncontrollable" labor cost increases.

The Privatization Group has countered the Consortium proposal as follows:

- a) the Consortium's offer to purchase at \$3.5 million is significantly below our best estimate of fair value. Based on the information available from the Ministry of Forests and Lands and certain key assumptions noted in the attachment, a value based upon this specific business opportunity is in the range of \$4.5 - 5.5. million.
- b) sale to be transacted with an initial payment of \$.5 million at date of closing; the balance in three equal annual payments with interest charged on outstanding balances
- c) five year contract for supply of seedlings to the Province at rate of 45 million; 50 million; 50 million; 40 million; 30 million per year
- d) seedling price at blended market rate as of 1987
- e) 4% consideration of risk factor for growing losses based on Ministry experience.

2. VALUATION AND NEGOTIATION CONSIDERATIONS

In absence of a competitive environment to evaluate the consortium bid several principles have been employed to test the issue of fair value for the nursery assets and business opportunities being made available, they are:

CABINET SUBMISSION

FEBRUARY 2, 1988

Page 4

- a) how much might a responsible and prudent entrepreneur reasonably be expected to pay for this business opportunity given realistic assumptions concerning probable market value and costs of doing business (see attached report)
- b) what is the minimum net realizable value of the Province's assets forming part of the bid, in the event that a decision were taken to shut down the nurseries and to dispose of the assets in an orderly fashion (see attached report)
- c) no component of any deal negotiated exclusively with employees could be successfully argued as being out-of-keeping with market conditions or established past precedents with other commercial nursery owners.

Based upon these considerations it is the Privatization Group's view that unless the Consortium's offer approaches the range of \$4.5 - 5.5 million it would not constitute fair value for the business opportunity being presented at these six nurseries. This range compares to the probable net realizable value in the event of a shutdown/disposal scenario. No condition of sale, presented in the Province's offer to date, could be construed as being a distortion of market conditions or offensive to past precedents established in regard to private commercial nurseries.

3. RECOMMENDATIONS:

Following recent meetings with the Consortium representatives it is evident that agreement cannot be made without further significant movement by either party. In view of this situation it is recommended that:

- a) the Consortium be advised that their bid cannot be accepted without testing the open market through a proposal call since there is a significant difference in perceived fair value
- b) the Consortium be encouraged to remain intact with the opportunity to revise their bid if they so desire and with the assurance that the integrity of their bid and business plan will be protected
- c) a proposal call be immediately issued for the six nurseries and that a resubmission of this issue be made to Cabinet following preliminary evaluation of all proposals received, including a comparison with the Consortium proposal.

CONFIDENTIAL DOCUMENT

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CABINET SUBMISSION

FEBRUARY 2, 1988

Page 5

TELKWA PROPOSAL

Preliminary evaluation of the Telkwa nursery proposal indicates that it meets all of the necessary tests to proceed to the negotiations stage. Consequently, it is recommended that the Privatization Group proceed to attempt a negotiated settlement with the employee proponent using the same principles as outlined in point #2, "valuation and negotiation considerations" on page three of this submission.

DUNCAN AND GREEN TIMBERS NURSERIES

In keeping with Cabinet's direction on these two nurseries, discussions will shortly be initiated with the two local government in which the nurseries are situated. The Ministry of Forests and Lands will take the lead in these discussions in its role of administrators of Crown Land. Based upon the interests expressed by the two local governments, the Forests and Lands Ministry, in consultation with the Privatization group, will prepare land use options on both the Duncan and Green Timbers sites for Cabinet consideration. During this assessment period and pending Cabinet's final resolution of these matters, the two nurseries affected will be kept operational.

CONFIDENTIAL DOCUMENT



Province of British Columbia

CABINET AGENDA

CABINET

MINISTERS' EYES ONLY

DATE: Wednesday, March 9, 1988

TIME: 9:00 a.m. - 1:30 p.m.

LOCATION: Cabinet Chambers, Victoria

REMINDER: Cabinet will adjourn at 11:30 a.m. to attend a presentation and luncheon hosted by the B.C. and Yukon Community Newspapers Association at the Crystal Gardens

ITEM	MINISTER	TAB
✓ Privatization Issues	<i>St. Sauveur / Rhodes</i>	
	Implementation Committee	TAB 1

Not Responsive

Kathleen A. Maugh
Secretary to Cabinet

March 9, 1988
Date

SUMMARY OF DECISIONS

CABINET

March 9, 1988, VICTORIA, B.C.

Not Responsive

2. Privatization

Telkwa Nursery

- Business valued by Clarkson Gordon
- Land appraised by Lane Appraisals
- This information should be included in any public announcement.
- Approved subject to Poole bringing back further information on the assessed value of the land, business valuation, possible lease to purchase arrangement.

Questions in the House

- Agreed to procedure outlined in briefing note.
- Poole to follow-up to ensure that staff are briefing their Ministers on privatization initiatives and to ensure Working Group has provided Ministers with specifics on privatization projects announced to date.

Not Responsive

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Pages 45 through 46 redacted for the following reasons:

Not Responsive

MINISTRY OF FINANCE AND CORPORATE RELATIONS
FINANCIAL IMPACT ASSESSMENT

SUBJECT: Ministry of Forests and Lands (MFL); Approval in principle for the sale of the Telkwa Forest Nursery to Mr. N. Chadsey, the sole employee. (Submission Date: March 2, 1988.)

FINANCIAL IMPACT:

Background

- On December 16, 1987, Cabinet approved a five year silviculture program that included direction to the ministry to sell forest nurseries immediately with seedling and storage contracts in place. The Telkwa Nursery, with only one employee, is the smallest nursery to be privatized. It produces about 700 thousand seedlings annually, provides cold storage for seedlings from other areas and specialized storage of pesticides and cones. The proposed contract provides for rental of storage space for five years and purchase of seedlings for three years.

<u>Gross Outlays/Revenues</u>	<u>1988/89</u>	<u>1989/90</u>	<u>1990/91</u>
<u>Annual Savings</u>			
• Reduced operating costs	\$6,595	\$6,595	\$6,595
<u>Disposal of Assets</u>			
• Purchase price*	\$182,000	-	-

* Assets are valued at \$639,000 (land \$118,000 and structures \$521,000) but remote location and specialized nature preclude alternate use. Value of the business opportunity is estimated by Clarkson Gordon at \$150,000 to \$219,000.

Staffing

- Reduction of one full time and two auxiliary FTEs for the ministry.

Financial Risks

- Contract prices are in line with current market rate.

Indirect Effects

- Establishes a base price for other nursery privatization.

SOURCE OF FUNDS:

- Nil.

March 1, 1988

JP/LH
and RJH

**GOVERNMENT RESTRUCTURING IMPLEMENTATION COMMITTEE
PRIVATIZATION - TELKWA FOREST NURSERY**

APPROVAL IN PRINCIPLE

ISSUE:

Approval in principle is requested for the terms of a sale to the regular employee of the Telkwa Forest Nursery.

INTRODUCTION:

Sale of the forest nurseries was initiated as part of a change in forest policy which places the responsibility for silviculture with private industry; a move which is estimated will save the Province \$143 million annually by 1992/93.

On December 16, 1987, Cabinet approved a 5-year transitional silviculture program to help implement the new policy. Part of this program is to sell forest nurseries immediately with seedling and storage contracts in place in preference to the liquidation of excess nursery facilities at some future point. This helps ensure:

- the regional employment and economic base provided by the nurseries remains in tact.
- enhanced value is received for the nurseries if sold as viable business opportunities.
- the benefits of current cash payments are received.
- potential downstream costs associated with operational shutdown and personnel redeployment are avoided.

BACKGROUND:

The Telkwa Forest Nursery is by far the smallest nursery being privatized having one regular employee, 2 auxiliary FTE's and the capacity to produce 750,000 seedlings annually. In addition to nursery operations, the Ministry of Forests and Lands uses the facility for several types of storage. Because it is close to major logging activity, the Ministry requires continued use of Telkwa as a local cold storage centre for seedlings transported from other parts of the Province. In addition, the Ministry requires use of specialized pesticide and cone storage facilities in support of regional operations.

The nursery superintendent has forwarded a proposal which incorporates these requirements and on February 3, Cabinet approved entering into negotiations.

PROPOSED AGREEMENT:

A Summary of Understanding for the sale of the nursery is attached. The principle points are:

- o Purchase price of \$182,000 for sale as of April 1, 1988.
- o Ministry of Forests and Lands (MOFL) to provide a 3 year contract for 700,000 2+0 lodgepole pine seedlings annually at 13.5 cents per seedling.
- o MOFL to lease cold storage for \$34,500 annually, 5 year lease.
- o MOFL to lease pesticide storage for \$6000 annually, 5 year lease.
- o MOFL to lease cone shed for \$1,000 annually, 5 year lease.
- o MOFL will review length of seedling contract on completion of Public Proposal Call.
- o Current sole employee (B.C.G.E.U.) to become sole owner.

DISCUSSION:

In evaluating this offer, the value of the business opportunity, potential liquidation value and contract costs must be assessed.

Our estimate of the value of the business opportunity as provided by Clarkson Gordon is \$150,000 - \$219,000. Mr. Chadsey's offer of \$182,000 is in the middle of this range.

Future liquidation value would depend on any remaining business opportunity. Applying a present value factor of 10%, the Province would have to receive a liquidation value in excess of \$293,000 5 years hence to receive value equivalent to Mr. Chadsey's offer today.

Land was recently appraised at \$103,000 - \$118,000 by Lane Appraisals. Depreciated replacement value for all buildings and site improvements was estimated by the Ministry of Forests and Lands at about \$521,000. However, most buildings were constructed in 1956 as part of a Forest Ranger Station and are unlikely to hold much value for future nursery operations. While some buildings certainly have functional value, any proceeds the Province could reasonably expect would depend on the business opportunities available.

In considering contracts, it should be noted it will be necessary to contract with private industry for seedlings and storage not provided by the nurseries. Contracting with the nurseries, however, enhances the value of the business opportunity. Provided contracts are in line with current market rates, they increase the business opportunity value and return to the Province.

The proposed contract prices appear reasonable and in line with current market rates. The seedling price is the same as that charged by the Ministry of Forests and Lands to industry for that stock type. The cold storage rate is equivalent to similar private operations, but includes all storage and operating costs estimated at \$6,000 - \$10,000 annually. Therefore the net contract cost is below current market rates. The Ministry of Forests and Lands has reviewed and agreed to pesticide and cone storage costs.

In addition, it is estimated that the terms of the contracts represent an annual operation savings to government of approximately \$6,600 annually in addition to the purchase price. This amounts to \$19,800 over the 3 year seedling contracts.

It would appear that Mr. Chadsey's offer is a fair one, both for him and for the taxpayer.

RECOMMENDATION:

It is recommended the sale be approved in principle as per the Summary of Understanding.

IMPLICATIONS:

The offer represents a fair value to the taxpayer based on the business opportunity. The seedling contract is for 3 years and does not provide the purchaser with any market advantages. In fact, if he cannot lower his costs as anticipated, an operating loss may result. Consequently no adverse reaction is anticipated to the terms of the agreement.

The unique situation in which a bargaining unit employee becomes the owner/operator of his own business may offer a positive example of privatization. The northern location may also have an impact.

ATTACHMENT

TELKWA FOREST NURSERY Annual Operating Costs

Direct Operating Budget (3 year average)	\$113,032
Employee Benefits (87/88)	16,540
Administrative Overhead (87/88)	7,668
Program Reduction * (elimination of 13 support FTE's)	<u>8,355</u>
TOTAL Current Cost to Government	<u>\$145,595</u>

Proposed Costs

Seedling Contract **	\$ 94,500
Cold Storage Contract	34,500
Pesticide Contract	6,000
Cone Shed Contract	1,000
Estimated Additional Charges	<u>3,000</u>
TOTAL Future Costs	<u>\$139,000</u>

ESTIMATED ANNUAL SAVINGS

\$6,595

* As part of the nurseries privatization, 13 support positions in the program administration group are being eliminated. These have a salary budget of \$372,000 plus benefits and administration. A portion of this has been prorated to Telkwa based on its proportion of the total number of nursery FTE's being privatized (3 of 177).

** While the proposed contract is for 700,000 seedlings annually, historically the nursery has produced an average of only 480,000 seedlings; 69% of its sowing. Should this trend continue, actual seedling contract costs would be \$64,800 (.135 x 480,000). This represents an additional savings of \$29,700 annually.

5P



Province of
British Columbia

Government Restructuring
Privatization Group

548 Michigan Street
Victoria
British Columbia
V8V 1S3

February 16, 1988

Mr. Norm Chadsey
Nursery Superintendent
Telkwa Forest Nursery
Box 310
Telkwa, British Columbia
V0J 2X0

Dear Mr. Chadsey,

Attached is a summary of the terms for a possible agreement to purchase the Telkwa Forest Nursery.

As I have explained, these terms would be incorporated into an agreement and are subject to approval by the Government Restructuring Implementation Committee and by Cabinet. Cabinet approval will also be required for the final agreement(s). The Ministry of Forests and Lands is prepared to provide a letter of understanding to confirm it will review the length of the seedling contract after negotiations for other forest nurseries have been completed. This is not to be construed as a commitment to extend or in any other way alter the terms of the contract established.

Although this summary may contain essential points to be agreed to, it is only an expression of interest and does not, nor is it intended to, constitute a legally enforceable agreement.

Yours truly,

Ian Dodge
Project Officer

ID/jb
5P

SUMMARY OF UNDERSTANDING
PURCHASE OF TELKWA FOREST NURSERY

1. Disposition

Included in the disposition are all the land (about 5 hectares - 13 acres) fixed assets and chattels at the nursery unless specifically excluded in writing by the Ministry of Forests and Lands (MOFL). The Province may restrict land use to ensure the continuation of nursery operations for a period not exceeding the length of seedling contracts provided by the Province.

2. Employees

It is understood the sole current regular employee will become the sole owner and will continue to use the site and facilities for nursery operations.

3. Seedling Contracts

It is understood that the MOFL will provide a three-year seedling contract to provide 700,000 2+0 bare root lodgepole pine annually at 13.5 cents per seedling. Contracts would be payable 30% on completion of sowing 20% after May inventory and 50% after lifting.

4. Cold Storage

It is understood that the MOFL will lease all cold storage space for a five-year period at a rate of \$34,500 annually. This reflects a cost of \$7.50 per carton, based on a total capacity of 4600 cartons. The rate would include all costs associated with storage including hydro, labour and record keeping.

While the lease would be for exclusive use by the MOFL, the owner would have the right to use space not required by the MOFL and retain 50% of the revenues less direct costs obtained for its use. The other 50% would go the MOFL.

5. Pesticide Storage

It is understood that the Ministry of Forests and Lands will lease pesticide storage space from the new owner for a period of 5 years at a rate of \$6,000 per year. Heat, hydro and other expenses associated with ongoing use of the building are included in this rate.

. . . /2

Labour, record keeping and any other costs associated with the control, moving or handling of pesticide inventory are not included. These services would be performed by the new operator and billed to the Ministry at agreed upon rates, such rates not to exceed current levels. The new owner would maintain a valid pesticide control licence and conform to the Pesticide Control Act.

While the lease would be for exclusive use by the MOFL, the owner would have the right to use space not required by the MOFL and retain 50% of the revenues less direct costs obtained for its use. The other 50% would go the MOFL.

6. Cone Storage

It is understood that the MOFL will lease cone storage space from the new owners for a five-year period at a rate of \$1,000 per year. Labour costs to handle cones as well as record-keeping would not be included and would be an additional charge to the Ministry at agreed upon rates, such rates not to exceed current levels.

While the lease would be for exclusive use by the MOFL, the owner would have the right to use space not required by the MOFL and retain 50% of the revenues less direct costs obtained for its use. The other 50% would go the MOFL.

7.

For purposes of items 4 - 6 above, the proponent will be responsible for all the MOFL's seedlings, pesticides and cones and related materials and other property in storage at the proponents' facilities and the proponent will be required to carry insurance thereon, to the satisfaction of the MOFL. Cost of insurance for pesticide storage remains a negotiable item.

8.

Bid Price

Based on items 1-7 above, the proponent offers a cash price of \$182,000. This figure represents five times cash flow as calculated by the proponent.

I concur with the above Summary of Understanding. I further realize that although this proposal may contain essential points to be agreed to, it is only an expression of interest and does not, nor is it intended to, constitute a legally enforceable agreement.

Original signed by
N.H. Chadsey

Date

5P

LETTER OF INTENT

Dated this 25 day of February, 1988

Between: Norman H. Chadsey. of Telkwa

And:

S22

Whereas; Norman Chadsey has made an offer to purchase the property known as the Telkwa Nursery as set out in the report of November 1, 1987, subject to the acceptance of this offer by the Government of British Columbia,

S22

S22

G.B. PHILLIPS - B.R. EDMISON
CHARTERED ACCOUNTANTS

TELEPHONES
847-4325
847-3077

P.O. BOX 937
SMITHERS, B.C.
V0J 2N0

February 25, 1988

Government of British Columbia
Privatization Group

Attention: Ian Dodge

Dear Sir:

Re: Norman Chadsey

In relation to the offer to purchase the property known as the Telkwa Nursery, please accept this letter as confirmation that the business will be operated as a sole proprietorship under the name of the Telkwa Nursery on approval of the transfer of the name as part of the sale.

Yours truly


C.A. McCreary
Accountant



SUBJECT: Ministry of Forests and Lands; Privatization of the Telkwa Forest Nursery

- The total value of the Telkwa Nursery assets have an estimated depreciated value of \$639,000 (land \$118,000 and buildings \$521,000). The building value represents the cost to government and cannot be viewed as a reasonable measure of market value. Any prospective buyer must consider the revenue potential of the investment in establishing his bid price. In the absence of open bidding, Clarkson Gordon has assessed the fair market value as Between \$150,000 and \$219,000. Nevertheless this sale may be perceived as presenting a "fire sale" image to the public.

• Options:

1. Sell as Presented but Explain the Issue - In almost every privatization case there will be similar public perception problems. As this is a very small issue involving a single employee, it is likely to gain considerable public sympathy. It may be appropriate to use this case to explain the difference between "book" and "market" value.
2. Open the Sale to Public Bidding - This would clearly establish the fair market value of the property but it is unlikely that bid price would be substantially in excess of the value established by Clarkson Gordon.
3. Negotiate a Long Term Lease - The ministry might be able to arrange a long term lease that would avoid the perception of selling assets below true value. While the government would receive lease payments, they would not approach an economic rent of the asset at book value.

• Recommendation:

Option 1.

SUMMARY OF DECISIONS

CABINET

June 1, 1988, VICTORIA, B.C. 9:00 a.m.

Not Responsive

2) Privatization Issues

Not Responsive

... 2

Not Responsive

Timetable for Privatization Announcements

- nurseries

Not Responsive

...3

Pages 60 through 62 redacted for the following reasons:

Not Responsive



MINISTERS' EYES ONLY

CABINET AGENDA

Province of British Columbia
CABINET

DATE: Wednesday, July 20, 1988
TIME: 9:00 a.m. - 3:00 p.m.
LOCATION: Cabinet Chambers, Victoria
LUNCH WILL BE SERVED

ITEM	MINISTER	TAB
Not Responsive		
2. Nurseries Privatization	Honourable Dave Parker Implementation Committee	TAB 2

Not Responsive

Kathleen A. Inayath
Secretary to Cabinet

July 20, 1988
Date

Nurseries Privatization

Material to be distributed at the meeting.

SUMMARY OF DECISIONS

CABINET

July 20, 1988, VICTORIA, B.C. 9:00 a.m.

Not Responsive

4. Nurseries Privatization:

- approved bid by employees group for sale of six nurseries
- agreed that the Financial Impact Assessment be revised to more accurately reflect the cost of privatization
- land use study will continue to be pursued for Koksilah and Green Timbers
- agreed that announcement of sale will be tied to labour negotiations.

Pages 66 through 67 redacted for the following reasons:

Not Responsive

SUBJECT: Ministry of Forests: Privatization of Forest Nurseries.
(Submission Date: July 13, 1988.)

- The two nurseries that the ministry currently plans to retain will not satisfy long term government demand for trees.
- It is cheaper to provide trees to satisfy government demand from ministry nurseries than to purchase them from private nurseries.
- The employee bid is about 9% lower than what could be realized from the sale to separate bidders. Acceptance of the employee bid could establish a poor precedent.
- Creation of a single large nursery enterprise as proposed in the employee bid would reduce the competitiveness of the bidding process at the end of the initial five year contract period.

It is recommended that:

- The ministry consider the option of retaining the Chilliwack and Thornhill Nurseries for which no successful bid has been tendered.
- The employee bid be rejected in favour of the individual bids for four nurseries unless the employee bid is seen as having significant non monetary advantages.

MINISTRY OF FINANCE AND CORPORATE RELATIONS

FINANCIAL IMPACT ASSESS NT

SUBJECT: Ministry of Forests; Nursery Privatization
(Submission Date: July 14, 1988.)

FINANCIAL IMPACT:

Background

- The Privatization Group recommends that Cabinet approve the sale of six forest nurseries to an employee group.
- This decision is related to the transfer to industry of responsibility for basic silviculture on areas harvested under major forest licences after September 30, 1987. The incentive to privatize relates to a reduced government demand for seedlings.
- Two major nurseries would continue to be operated by the Ministry of Forests to provide trees for the Small Business Forest Enterprise Program. An additional continuing demand for catastrophic fire and pest damage to Crown land and any ongoing Forest Resource Development Agreement would be satisfied by private contract.

- In response to a request for proposals, acceptable bids totalling \$5.19 million were received for four of the six nurseries.

- An employee group bid \$5.55 million for all six nurseries. This bid is between \$0.54 and \$1.15 million below the value of the six nurseries sold separately.

Gross Outlays

	<u>88/89</u>	<u>89/90</u>	<u>90/91</u>	<u>91/92</u>
Net ministry seedling requirement (millions)	147	158	134	128

Privatization

(\$ million)

Cost to purchase net requirement	<u>\$22.9</u>	<u>\$24.6</u>	<u>\$20.9</u>	<u>\$19.9</u>
----------------------------------	---------------	---------------	---------------	---------------

Ministry Operation

- 65 million seedlings from ministry nurseries	\$9.2	\$9.2	\$8.2	\$7.2
- purchase excess	\$12.8	\$14.5	\$10.8	\$9.8
Cost to produce net requirement	<u>\$22.0</u>	<u>\$23.7</u>	<u>\$19.0</u>	<u>\$17.0</u>

-2-

Revenues

- . Sale of six nurseries at \$5.55 million.

Staffing

- . Reduction of 131 FTEs.

Financial Risks

- . The employee bid is about 9 per cent lower than the minimum expected return from the separate sale of the nurseries. This is a significant increase from the 5 per cent employee preference initially established.
- . Retention of additional silviculture capacity to satisfy long term government requirements would reduce long term costs.

Indirect Effects

- . If nurseries were sold separately, more intense price competition could reduce cost to government for seedling purchases.
 - . Creation of a single large private nursery operation could reduce competition for government contracts.
-
-

SOURCE OF FUNDS:

- . Not applicable
-

July 15, 1988

CABINET SUBMISSION

PURPOSE

To negotiate agreements for the sale of up to six forest nurseries.

BACKGROUND

Nine forest nurseries were identified for privatization on October 23, 1987. One, the Telkwa Nursery, has been sold. Two are the subject of land use studies. The remaining six are the subject of this submission. Initial discussions with proponents are complete and approval to enter into agreements of sale is required.

DISCUSSION

Forest Policy

The change in forest policy transferring the responsibility for silviculture to industry will save the Province an estimated \$143 million annually by 1993. Resulting from this shift, the Ministry of Forests and Lands will have substantially reduced requirements for seedlings and a correspondingly reduced need for seedling production facilities. These facilities, the forest nurseries, can either be closed when the production is no longer required, or, privatized now as viable businesses.

Regional Impact

The economic impact of nursery shut downs could be quite significant, especially in smaller communities such as Nelson or Terrace. It may also be difficult to absorb specialized personnel into the local workforce (about 131 FTE's in the six nurseries). Conversely, under privatization, proponents have identified expansion initiatives which would have a positive impact on local economies.

Time Lines

It is strongly recommended that operational transfer of nurseries take place by August 1, 1988 in order to:

- o secure contract commitments for the 1989 and future sowing years;

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- o undertake capital expansion projects prior to winter;
- o have sufficient cash flow for 1988, as the growing season ends in September/October and minimal or no revenues are generated over the winter.

Should it not be possible to reach agreement on specific nurseries, the potential for adverse impact is strong. While specific values cannot be assigned, it must be realized:

- o government would have to operate the nurseries until the next growing season (about 9 months);
- o staffing and morale problems increase with uncertainty and delay;
- o potential for reduced attractiveness in an increasingly competitive market. Private nurseries are currently pursuing new contracts.

Conditions of Sale

Conditions for all sales would be similar to the Telkwa Nursery sale in that:

- o land use/transfer would be restricted for the duration of contract commitments;
- o multi-year seedling contracts would be established at competitive rates;
- o where required, there would be 5 year contracts for storage;
- o job continuity and equity participation opportunities would be provided for regular staff.

In cases where land is not currently surveyed and/or cannot be prepared for sale by August 1, 1988, proponents initially will be licensed to operate the facility until such time as the property can be formally transferred.

Selling price is exclusive of the current seedling inventory. This inventory has a value of about \$11,100,000 on completion of growing. The Province will pay only \$7,200,000 on completion thus realizing about \$3,900,000 for the sale of the inventory. This represents the full costs incurred to date.

.../3

OPTIONS

- o Two viable options exist for the disposition of the nurseries:

Option 1:

Sell all six nurseries to the employee group for a cash value offer of \$5,550,000 (see attachment 1). This would simplify the sale and may provide the best opportunities for existing staff. The offer, while weaker on a "price per nursery basis" than other offers, is acceptable in terms of the business case.

Option 2:

Sell 4 nurseries individually for \$5.185 million total. Each offer provides job continuity, equity participation opportunities, and, a reasonable selling price. See Attachment 2.

The remaining two nurseries would:

- a) Be repackaged more attractively and placed to public tender;
- b) Be closed down after the 1988 growing season;

or

- c) Be "fast-tracked" by direct contact with potentially interested parties. Some interest has already been indicated.

RECOMMENDATION

Option 1, selling to the employee group. This provides for job continuity for all regular staff and the group has identified economic development plans for all six nurseries. Administratively, it should also be the simplest solution with corresponding cost efficiencies.

.../4

FINANCIAL IMPACT

An analysis of cost comparisons is difficult as government production costs do not allow for opportunity costs (such as taxes or capital depreciation) or other costs (such as interest or technical obsolescence) which private contracts must consider.

A conservative estimate would indicate:

- o A selling price of \$4.8 million is required to "break-even" when compared with a phased shut down over 5 years.
- o A selling price of \$6.7 million is required to "break-even" when compared to a total shut down in the last year (1993).

No attempt has been made to assess the impact of morale and staffing concerns associated with shut downs, or the regional impact of a shut down.

BCAA ASSESSMENTS

	<u>BCAA</u>	<u>Estimated Market Value</u>	
- Campbell River	\$1,024,500	\$1,800,000	- \$2,000,000
- Chilliwack River	\$ 591,296	\$ 550,000	- 600,000
- Harrop	\$ 927,390	\$ 500,000	- 700,000
- Red Rock	\$1,700,000*	\$1,600,000	- 1,800,000
- Thornhill	\$ 800,000*	\$ 350,000	- 450,000
- Vernon	\$ 350,700	\$1,000,000	- 1,200,000
		<u>\$5,800,000</u>	- <u>\$6,700,000</u>

*Subject to confirmation.

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18n/95-98

ATTACHMENT 1

EMPLOYEE GROUP PROPOSAL - 6 NURSERIES

Cash Offer	\$5,000,000	
Lease Discounts (NPV) (1)	\$ 50,000	
Contract Discounts (NPV) (2)	<u>\$ 500,000</u>	
Cash Value	\$5,550,000	(\$9,450,000)*
(1) Free use of pesticide, cone storage and other facilities (other proponents would charge for these facilities).		
(2) The employee group was offered additional seedling contracts for 30 million (10 million in 1991 and 20 million in 1992). These will be sold to the Ministry at reduced prices equating to a net present value of \$500,000.		

BEST SINGLE OFFERS (4 Nurseries)

Cash Offers	\$5,080,000	
Lease Discounts (NPV)	<u>\$ 105,000</u>	
Cash Value (3)	\$5,185,000	(\$9,085,000)*

(3) This value is exclusive of what could be realized through the sale of the remaining two nurseries (\$0.85 million estimated).

* Including inventory (\$3,900,000) increases the actual sales values to \$9,450,000 and \$9,085,000 for the Employee Group and single offers respectively.

0002L-10
 July 11/88
 JH/dn

ATTACHMENT 2

SINGLE OFFERS (000's)

	NURSERY	OFFER 1	OFFER 2	OFFER 3	VALUE ESTIMATES***
CAMPBELL RIVER		\$1,575			\$2,000
CHILLIWACK RIVER**					\$ 900
HARROP	\$ 705	\$ 540 (570)			\$ 350
RED ROCK	\$1,800	\$1,572	\$1,451		\$1,200
THORNHILL**					\$ 800
VERNON	\$1,000	\$ 899 (929)	\$ 890*		\$1,000
	\$5,080				\$6,250
					(\$5,185 includes \$105 in lease discounts)

* Employee bid not within 5% of best offer (within 11%).

** No reasonable offers received.

*** Estimates are based on earnings potential and do not reflect all market considerations.

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MINISTRY OF FINANCE AND CORPORATE RELATIONS
FINANCIAL IMPACT ASSESSMENT

SUBJECT: Ministry of Forests (MOF); Disposal of Koksilah
and Green Timbers Forest Nurseries.
(Submission Date: July 20, 1988.)

FINANCIAL IMPACT:

Background

- The Koksilah (Duncan) and Green Timbers (Surrey) nurseries have not been dealt with as part of the general nursery privatization proposal because of conflicting land use issues.
- As directed by Cabinet on February 2, 1988, land use studies were completed by MOF. Those studies have not been reviewed by the Environment and Land Use Committee (ELUC) or by the responsible Ministers of State.
- The Privatization Group recommends that Cabinet approve the following strategy for disposal of the nurseries:
 - Koksilah nursery operations be consolidated at the Trans Canada site and privatized by public tender.
 - The Koksilah Chesterfield site be disposed of through the Ministry of Crown Lands (MOCL) as surplus.
 - MOCL expedite negotiations with Surrey in order to make a final recommendation to Cabinet to exchange the Green Timbers site for land of equal value.

Gross Outlays

- Not identified.

Revenues

- Not identified. Green Timbers site has an appraised market value of \$6 million.

Staffing

- Not identified

Financial Risks

- Preservation of Green Timbers as park land and a heritage site will significantly reduce market value.

Indirect Effects

- Nil.

SOURCE OF FUNDS:

- Not applicable

July 19, 1988

CABINET SUBMISSION

MINISTRY: Privatization Group

DATE: July 20, 1988

PURPOSE:

To recommend strategies to deal with the Koksilah Forest Nursery (in Duncan) and the Green Timbers Forest Nursery (in Surrey).

BACKGROUND

Of nine nurseries identified for privatization, two were singled out for special reports because of potentially conflicting land use issues. In keeping with Cabinet's direction (February 2, 1988), land use studies were conducted by the Ministry of Forests and Lands. Both nurseries have been kept in operation pending the outcome of these reports.

DISCUSSION

Koksilah

While local government has expressed interest in acquiring one or both sites at the Koksilah nursery, no special factors were identified in the study (Attachment 1).

Green Timbers

The site retains historical and educational value. The Municipality of Surrey has expressed considerable interest in acquiring the site as park land and maintaining a small nursery primarily for educational purposes (Attachment 1 refers). Independent appraisers have identified the "highest and best use" as real estate development and valued the land at \$6,000,000. The Municipality of Surrey and other interest groups, however, appear strongly opposed to residential development on the site. The Ministry of Forests and Lands has been attempting to negotiate a land exchange with the Municipality for land of equal value.

RECOMMENDATIONS

Koksilah It is recommended that:

- a) Nursery operations be consolidated at the Trans Canada site and privatized by public tender forthwith.
- b) The Chesterfield site be disposed of by the Ministry of Forests through the Ministry of Crown Lands, as best meets the interests of the Province.

Green Timbers

It is recommended the Ministry of Crown Lands expedite negotiations with the Municipality of Surrey and, in consultation with the Ministry of Forests, make final recommendations to Cabinet on the disposition of Green Timbers.

ATTACHMENT 1

LAND USE OPTIONS REPORTS

KOKSILAH FOREST NURSERY

GREEN TIMBERS FOREST NURSERY

AND USE STUDY

KOKSILAH FOREST NURSERY

AGR: CULTURAL - The existing improvements, good quality soils which have been well managed over the years and temperate climate provide opportunities for intensive agriculture such as continuation of the forest nursery supplemented (or replaced) by market gardening of vegetables and flowers, commercial nursery production of decorative plants and shrubs or turf-farming.

PUBLIC USE - No requirements have been identified by local governments for school, hospital or other institutional uses and the area is well supplied with parks. However, the two municipalities have indicated a need to acquire land for relocation of their sewage treatment facilities (currently within Indian Reserve) and establishment of a regional recreation running track and fieldhouse facility.

LOCAL GOVERNMENT PERSPECTIVE:

District of North Cowichan, City of Duncan - have formally requested the opportunity to purchase both sites for future public purposes; sewage lagoons currently located on leased Indian Reserve Lands (expiry 1996), want to secure lands for relocation of lagoons and future development of enhanced sewage treatment facilities; also are looking for a site to build a quality track and field site for school, community and major event (i.e. B.C. Summer Games) activities.

Cowichan Valley Regional District - wish to see the Trans-Canada site remain as a nursery operation or other agricultural production.

LOCAL M.L.A. - Graham Bruce would like to see the Koksilah Nursery (Trans-Canada site) continue in operation; Chesterfield site can be sold.

COWICHAN INDIAN BAND - would be interested in submitting a proposal for the Trans-Canada nursery operation.

OTHER INTERESTS - does not appear that any of the major forest companies operating on Vancouver Island are interested in purchasing the nursery; local church and social housing groups may be interested in portions of the Chesterfield site.

RECOMMENDED OPTIONS:

Given the land use alternatives and local interests, two options are apparent:

OPTION 1 - provide an opportunity for the municipalities to purchase both sites at market value; if an offer to purchase is not presented to, and accepted by, the Province within a specified period (i.e. 60 days) the Koksilah Nursery proceeds to disposition via proposal call wherein the municipalities can still submit a proposal; if the municipalities do acquire the site, negotiation for continued nursery operation until the site is required for sewage facilities is possible.

OPTION 2 - proceed directly to proposal call for disposition of the Koksilah Nursery (both Trans-Canada and Chesterfield sites).

The Ministry of Forests and Lands recommends Option 2.

ISSUE UPDATE

CONFIDENTIAL

Section
Index#
File: 2403742

MINISTRY OF FORESTS & LANDS, LANDS OPERATIONS

DATE: May 15, 1988

ISSUE TITLE:

Green Timbers Nursery - Surrey
(Ref. #881947)

BASIC ISSUE:

Green Timbers Nursery operation is being discontinued. The site was withdrawn from the Nursery privatization program and a Ministry Committee was struck to examine disposition options which would satisfy both the Crown objective of recovering the site value and preserving the forest heritage values associated with the 160 acre site. The committee is to prepare a Cabinet Submission on completion of its review.

BACKGROUND

The committee has met with Nursery Management, the Green Timbers Heritage Society, the B.C. Forest History Association and the Municipality of Surrey.

The site holds the Lorax Training School, the Inaugural Plantation, several original plantations and an Arboretum. There is widespread public interest in preserving the forestry heritage aspects of the nursery site.

The Municipality of Surrey owns the remaining three quarters in this section. Plans call for an urban forest park. Surrey would like to receive the nursery site by free Crown grant to add to their parkland. However, Surrey has agreed to provide the committee with a list of lands which they would convey to the Crown in exchange for the nursery site. Surrey is appraising certain of their lands as possible exchange parcels.

It will be extremely difficult to develop this site for any commercial or residential purpose in view of the site's heritage values and Surrey's plans to retain the adjoining lands in their forested state.

Therefore, a land exchange with Surrey may accomplish many of the objectives of both the Province and the Municipality.

Surrey could add to its parkland by exchanging land in lieu of a cash outlay to the Province.

The Province will receive marketable land for land which may be very difficult to market for a commercial use. Proceeds would offset historical costs of the site and improvements to the Province. The exchange concept would also remove the need for the Province to become involved in any development controversies with respect to this site.

The Committee expects to receive a formal response and a list of possible exchange lands by the end of May, 1988.

The Committee will attempt to satisfy the following conditions in any negotiations with the Municipality:

1. exchange land of equal value
2. the exchange land must be marketable in the near future.
3. the provincially owned nursery site should receive at least an Urban Forest Designation so its status will be as protected as the adjoining lands owned by the Municipality.
4. the inaugural Plantation and historic office buildings, the Arboretum and possibly the Garry Oaks (see attached map) should be given a permanent protected status. The Lorax Training School consists of very old buildings which will require extensive upgrading. It would not appear practical to require the Municipality to maintain this facility for any particular purpose, although they could do so if suitable tenants were found. Apparently other forestry training facilities are available so there is no identified need for the Forest Service to continue using this location for training. Surrey would have however, the Special Permit until it expires in June of 1989.

5. Some portion of the Nursery operation to be retained and be available for educational purposes.

The Forest Service could provide the Municipality with technical assistance and would be prepared to contract with Surrey for 1 million seedlings per year.

The above conditions will impact negatively on the value but may be seen as the minimum area to be protected in terms of forestry heritage considerations.

The Committee anticipates being in a position to prepare a Cabinet Submission by mid June, 1988.

RECOMMENDED RESPONSE

The Committee to negotiate with the Municipality of Surrey, based on the guidelines stated above, to effect a land exchange.

Copy of this Issue Update to be sent following Executive Approval, to Mr. Ian Dodge for forwarding to the Privatization Committee.

Attachment: Green Timbers location map

APPROVED:

(1) REGIONAL MANAGER: J. T. Hall *J. T. Hall*

(2) ASSISTANT DEPUTY MINISTER: *[Signature]*
FORWARD TO OFFICE OF THE PREMIER/MLA? Yes ☐ No ☐

(3) DEPUTY MINISTER *[Signature]*

DIVISION: Operations Division

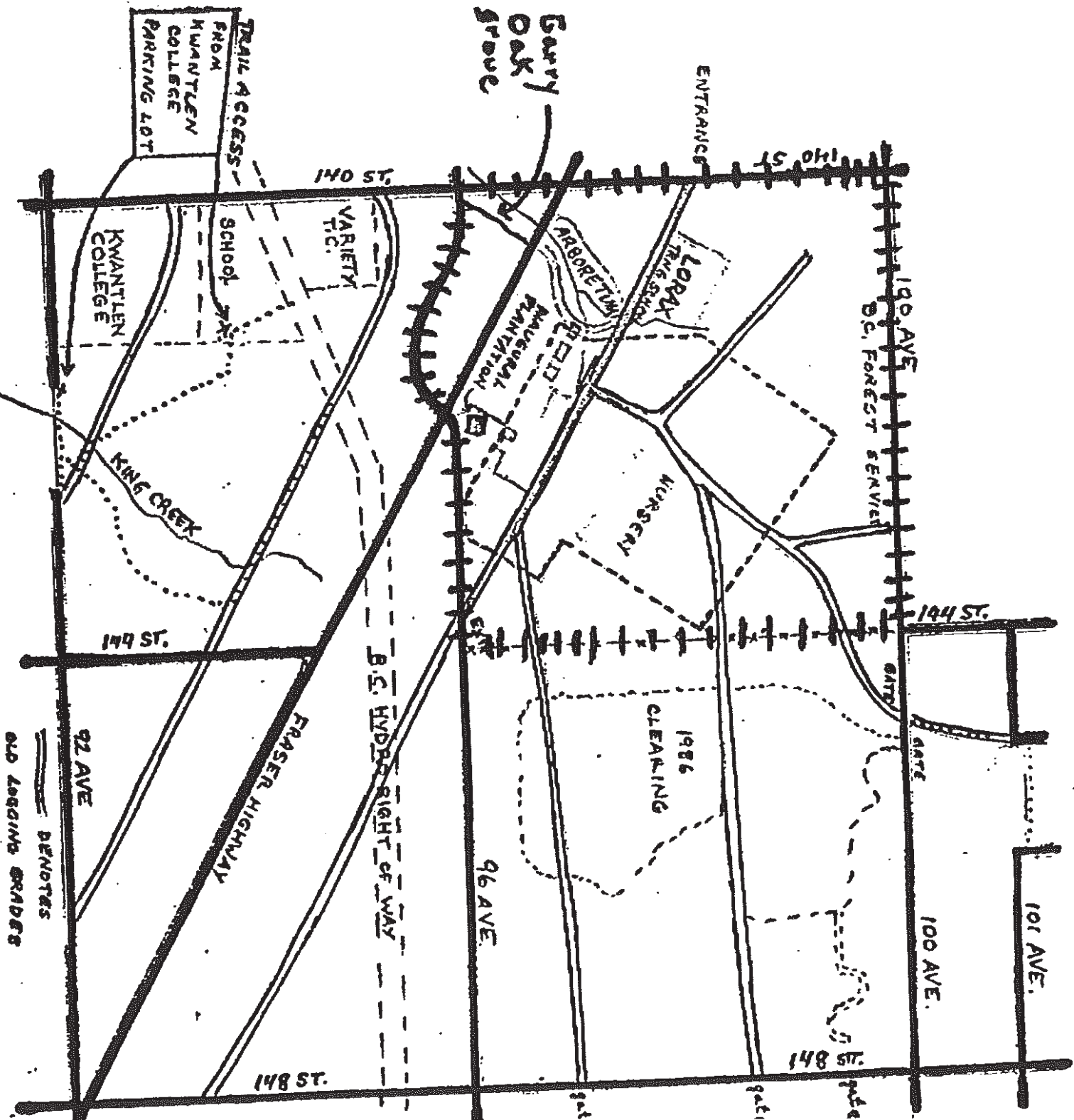
CONTACT: Lands - Lower Mainland Region

NAME: Jim Switzer

PHONE: 660-5500

LOCATION: Burnaby

GREEN TIMBERS



Provincial land

Pages 86 through 90 redacted for the following reasons:

Not Responsive