

The Coast Sustainability Trust II

Report of the Trustee as of September 30, 2007

General

The Province of British Columbia created the Coast Sustainability Trust (CST) in 2002 to mitigate the negative affects of:

1. provincial government decisions related to the Land and Resource Management Plan process; and
2. the implementation of Ecosystem Based Management (EBM)

on workers, contractors and communities, including First Nations, in the:

1. Central Coast;
2. North Coast;
3. Queen Charlotte Islands/ Haida Gwaii;
4. Comox Strathcona Regional District; and
5. Regional District of Mount Waddington.

The CST was initially funded with \$25,000,000 directed to mitigate forest workers and contractors (the Mitigation Fund), and \$10,000,000 directed to communities and mitigation related to the implementation of EBM (the Matching Fund). Any undisbursed funds in the Mitigation fund were required by the CST Trust Deed to be rolled into the Matching Fund as of March 31, 2005. At that time \$12,258,170 was rolled into the Matching Fund. The intention was to disburse all matching funds to eligible beneficiaries by March 31, 2007.

Of the initial \$10,000,000 in the Matching Fund, \$5,000,000 was set aside by the Advisory Board to mitigate the negative impact of the implementation of EBM. However, EBM is not projected to be fully implemented until March 31, 2009, so none of those funds have been disbursed.

On March 31, 2007, there was over \$20 million in the CST accounts. Roughly \$6 million had been committed to specific projects, but over \$14 million had not.

The Trust Deed that created the CST stipulated that it was to terminate on March 31, 2007, and that the Trustee then had two years to determine what to do with any remaining funds in the CST. In anticipation of the termination of the CST, all the Advisory Board and Regional Steering Committee members, as well as all First Nations, organized communities and Regional Districts that were potential beneficiaries of the CST, were asked to comment on the disposition of remaining CST funds. The unanimous response was that the CST should be rolled over into a new trust that mirrored the existing trust, with only a few suggestions for minor changes.

The Advisory Board decided to roll the CST into the Coast Sustainability Trust II (CST II). CST II assumed all the assets and liabilities of the CST, retained the governance structure of the CST, and kept the Matching Fund Guidelines. The main differences are that the Regional Steering Committees now have the ability to increase the CST II commitment to any one project to as much as \$250,000 instead of the previous \$100,000 maximum and, in order to help small communities, the CST II may contribute

up to 75% of the first \$50,000 in a project's cost, instead of the previous 50/50 minimum requirement, for all community matching fund projects.

The other main difference with the CST II is that the Ecosystem Based Management Land Use Planning (EBMLUP) and the Economic, Scientific and Adaptive Management Development and Planning (ESAMDAP) subtrusts were rolled into a new EBMWG subtrust effective April 1, 2007, and an additional \$620,000 has been received from the Province of British Columbia to fund the EBMWG.

Given that the CST II assumed all the assets and liabilities of the CST, and given many partially funded Community Matching Fund projects were transferred to the CST II, activity reporting for the CST II Community Matching Fund will include CST activity:

CST II Account Balances and Distributions

As of September 30, 2007 the CST II Balances and distributions were as follows:

Account Balances

Community Matching Fund Account	\$12,712,506
EBM Matching Fund Account	\$5,082,794
Ecosystem Based Management Working Group Subtrust Account	<u>\$654,334</u>
Total available funds	\$18,449,634

Distributions to beneficiaries to date

Severance	\$2,933,857
Contractor Mitigation	\$10,749,764
Community Matching Funds	\$6,232,530
EBM Land Use Planning Subtrust	\$189,888
ESAMDAP Subtrust	\$132,486
EBMWG Subtrust	<u>\$56,335</u>
Total Distributions to beneficiaries	<u>\$20,294,860</u>
Total available funds plus distributions	<u>\$38,744,494</u>

In addition to the original \$35,000,000 given to the CST, three other subtrusts were funded by the province. Unused funds in the EBM Land Use Planning and ESAMDAP subtrusts have been rolled into the Ecosystem Based Management Working Group (EBMWG) subtrust. These three subtrusts combined have received a total of \$1,019,000. Income to date from investments of the CST and now the CST II has exceeded total administration expenses by almost \$2.8 million. There was no need to use any of the capital of the CST to fund its administration. This allows over \$3.8 million more than originally planned to go to beneficiaries.

Community Matching Fund Account

When the CST Community Matching Fund started operations, the Advisory Board agreed that decisions related to specific initiatives in the communities should be made at the local level as opposed to by the broader Advisory Board. Five Regional Steering Committees (RSCs) were formed. They are

the Central Coast, Comox Strathcona, Mount Waddington, the North Coast, and Queen Charlotte Islands/Haida Gwaii. Significant progress has been made to date with all five RSCs.

Leverage of CST Community Matching Funds

Each of the five RSCs has been allocated \$3,500,000 to use towards developing Regional Economic Development Strategies and to support individual initiatives that fit those strategies. As of the end of September 30, 2007, funding has been approved for a total of 163 projects. The total commitment from the CST is \$10,601,276, for projects worth a total of \$85,989,319. Therefore, on average a total of \$8.11 goes into approved projects for each \$1.00 of CST funds committed.

Following is a table that shows the total value of the requests for assistance, and the progress in approving funding for each of the RSCs. As of September 30, 2007, Funding Agreements were being negotiated with proponents of many of the approved projects. The version of this report on the CST website (www.coastsustainabilitytrust.com) includes a schedule listing all the approved projects, including a short description for each of them.

Status of Community Matching Fund funding requests As at September 30, 2007

Regional Steering Committee	Total Project Size	Amount Requested of CST	Amount Rejected by CST or abandoned by applicant	Amount still under consideration by CST	Number of Approved Projects	Amount approved by CST	Amount disbursed by CST
Central Coast	\$14,675,030	\$4,596,515	\$1,746,461	\$832,820	51	\$2,017,234	\$1,485,406
Comox Strathcona	\$43,296,836	\$10,583,075	\$7,584,693	\$290,000	32	\$2,708,382	\$1,898,582
Mount Waddington	\$25,101,558	\$6,200,033	\$3,052,664	\$402,566	41	\$2,744,804	\$1,459,653
North Coast	\$30,409,843	\$5,324,490	\$2,103,105	\$1,168,787	22	\$2,052,599	\$807,502
QCI Haida Gwaii	\$33,499,137	\$3,139,836	\$1,468,750	\$592,827	17	\$1,078,259	\$581,388
Total:	\$146,982,404	\$29,843,948	\$15,955,673	\$3,287,000	163	\$10,601,276	\$6,232,530

Types of Projects approved

In order to stimulate economic activity, each RSC considers and approves projects that fit into the strategic priorities of their area or, if no formal strategic priorities have been developed, projects that clearly fall into the range of initiatives that likely will be included. The types of projects vary to some extent by the chosen strategic direction of each RSC. In each RSC except Haida Gwaii/Queen Charlotte Island the highest concentration of project approvals relate to the enhancement of tourism opportunities, with an emphasis on eco and cultural tourism. Examples are the construction or renovation of First Nations Big Houses, support for tourism associations on the Central Coast, Northern Vancouver Island and the Queen Charlotte Islands/Haida Gwaii, assistance to the Nisga'a in Gingolx for their cultural longhouse and carving shed, assistance to the Haida in the construction of a cultural center, assistance to the Kwakiutl in a resort upgrade, assistance to the Bella Coola Valley

Museum to help make it an even better attraction, funding for self directed walking tours in Campbell River and the Comox Valley, and bear watching operations in Phillips Arm for the Kwiakah First Nation , and in the Chuckwalla Nature Sanctuary for the Oweekeno First Nation. In aggregate, 47.3% of CST funding has gone to assist tourism related projects.

Infrastructure improvements are another primary focus, and the biggest one in Haida Gwaii/QCI. Some are aimed at enhancing tourism, such as creating or improving destination hiking or mountain biking trails, construction of RV and campground facilities, construction of an all season all weather boat ramp, and improving cruise ship terminals, docks and harbours. Other projects enhance industrial or commercial opportunities, such as industrial park in Port Alice or assistance in creating an Economic Development Zone on Quinsam Indian Reserve 12 in Campbell River. The Central Coast RSC voted to contribute \$302,500 towards a project that provides Broadband Internet to the communities on the Central Coast, and the Mount Waddington and Comox Strathcona RSCs have also approved funding to assist in the installation of Broadband Internet in seven Northern Vancouver Island communities. In aggregate, 24.4% of CST funding has gone to assist infrastructure related projects.

A third focus is shellfish aquaculture and processing. The Comox Strathcona and Mount Waddington Regional Steering Committees jointly elected to help fund a Shellfish Industry Investment Attraction Initiative promoted by the Vancouver Island Economic Developers Association (VIEDA). They recently expanded funding to assist in attracting investment for shellfish processing. The Central Coast, North Coast and Queen Charlotte Islands/ Haida Gwaii RSCs jointly agreed to support a combined North Coast – Skeena First Nations Stewardship Society and Turning Points Initiative Society application for assistance in developing a coast wide shellfish aquaculture initiative. The Central Coast RSC has also provided support to the Heiltsuk Nation Shellfish Co-operative. In aggregate, 18.4% of CST funding has gone to assist aquaculture and processing related projects.

The CST also supports the development of non timber forest products. In Northern Vancouver Island this has taken the form of a Non-Timber Forest Products Innovation Centre, while the Queen Charlotte Islands/Haida Gwaii RSC approved funding to a Co-op that will initially pursue vacuum drying of chanterelle mushrooms, and later branch into other edible products.

To date, CST funding has been fairly evenly split, with 52% of funding going to First Nations sponsored initiatives, and 48% going to civic community sponsored initiatives. In fact, a significant number of initiatives related to shellfish aquaculture, tourism, planning and broadband were joint initiatives between First Nations and civic communities.

Ecosystem Based Management Matching Fund Account

The Advisory Board directed that the \$5,000,000 within the CST Matching Fund Account remain segregated from the Community Matching Fund Account, so a separate account was established. It is likely that this account will be dormant until at least March 31, 2009, and the only activity will be growth through interest on the invested funds. As of September 30, 2007 the EBM Matching Fund Account had a value of \$5,082,794.

Ecosystem Based Management - Land Use Planning Account

In the second quarter of 2003 a donor directed trust of \$254,000 was added to the CST. It was restricted to providing assistance for land use planning related to EBM. The CST received five funding requests, totaling \$234,188. Four were approved, for a total commitment of \$194,188, of which

\$189,888 was disbursed. The remaining \$5,000 commitment expired effective March 31, 2007. The net uncommitted funds of \$64,112 plus the excess of interest income over administration costs of \$6,376 for a total of \$70,488 were rolled into the EBMWG subtrust effective April 1, 2007.

Economic, Scientific and Adaptive Management Development and Planning Sub Trust (ESAMDAP)

In the second quarter of 2004 a donor directed trust of \$145,000 was added to the CST. It was restricted to providing assistance with Economic, Scientific and Adaptive Management Development and Planning. The CST received and approved four applications for a total commitment of \$132,486, all of which has been disbursed. The uncommitted funds of \$12,514 plus the excess of interest income over administration costs of \$2,413 for a total of \$14,927 were rolled into the EBMWG subtrust effective April 1, 2007.

Ecosystem Based Management Working Group subtrust (EBMWG)

In the second quarter of 2007 a donor directed trust of \$620,000 was added to the CST II. Its purpose is to fund consulting projects approved by the EBMWG with a view to improving the scientific basis of EBM related decisions. Including the net \$85,416 rolled in from the EBMLUP and the ESAMDAP subtrusts, the funds initially available to the EBMWG were \$705,416.

As of September 30, 2007, the Joint Land and Resource Forums have approved a work plan and budget for the period from April 1, 2007 to March 31, 2008 for the EBMWG. It involves 18 general classifications, one of which involves as many as 18 separate studies. The total expected cost of the work plan is \$755,000, leaving a potential shortfall of approximately \$50,000.

As of September 30, 2007, there were a total of 6 awarded contracts involving commitments for \$235,157. Of those, disbursements of \$56,335 had been made, one project came in \$100 under budget, and there were \$178,722 in outstanding contractual commitments. Interest income to September 30 has exceeded the cost of administration by approximately \$5,000, so the funding shortfall between the approved work plan and available funds has dropped to approximately \$45,000. While it is too early to tell, it appears this shortfall may be able to be managed by reducing the scope of some contracts, or by receiving proposals that will cost less than originally expected.

Looking Ahead

During the fourth quarter of 2007, I expect the following activity in CST II:

- Funding requests will continue to be received and evaluated by each of the five Regional Steering Committees.
- Funding Agreements for Community Matching Fund projects will continue to be signed in the five RSC areas, and further disbursements will be made.
- Contracts aimed at increasing the EBM related knowledge base will be entered into with a variety of consultants related to the mandate of the EBMWG.

Eric van Soeren
Trustee