

**TORONTO PORT AUTHORITY  
(Doing Business as PortsToronto)**

**MANAGEMENT'S DISCUSSION & ANALYSIS – 2018  
(In thousands of dollars)**

**April 24, 2019**

*Management's discussion and analysis (MD&A) is intended to assist in the understanding and assessment of the trends and significant changes in the results of operations and financial condition of the Toronto Port Authority, doing business as PortsToronto (the "Port Authority" or "TPA") for the years ended December 31, 2018 and 2017 and should be read in conjunction with the 2018 Audited Financial Statements (the "Financial Statements") and accompanying notes.*

**Summary**

The Port Authority continued to be profitable in 2018. Net Income for the year was \$3,525, down from \$6,477 (excluding the gain on the sale of the 30 Bay Street/60 Harbour Street Property) in 2017. This MD&A will discuss the reasons for changes in Net Income year over year, as well as highlight other areas affecting the Port Authority's financial performance in 2018.

The Port Authority presents its financial statements under International Financial Reporting Standards ("IFRS"). The accounting policies set out in Note 2 of the Financial Statements have been applied in preparing the Financial Statements for the year ended December 31, 2018, and in the comparative information presented in these Financial Statements for the year ended December 31, 2017.

**Introduction**

The TPA is a federal government business enterprise continued pursuant to the *Canada Marine Act* as the successor to the Toronto Harbour Commissioners.

The Port Authority is responsible for operating the lands and waterlots it administers in the service of local, regional and national social and economic objectives, and for providing infrastructure and services to marine and air transport to facilitate these objectives.

The Port Authority is structured around four priority focus areas from a sustainability perspective, as follows:

- Environmental Stewardship
- Community
- People and Culture
- Economic Performance

Through its commitment to fostering strong, healthy and sustainable communities with investments of more than \$11 million since 2009 in donations, sponsorships and in-kind contributions to community initiatives, activities and events, the Port Authority is dedicated to environmental, social and governance (ESG) factors that are very important to a port authority operating in a burgeoning community.

*(In thousands of dollars)*

The Port Authority's main business areas are Port Operations, the Outer Harbour Marina ("Marina"), Billy Bishop Toronto City Airport ("BBTCA" or the "Airport") and Property/Other.

The TPA owns and operates a 52-acre port facility at 8 Unwin Avenue (the "Port Facility"), that includes a 126,000 square foot Warehouse ("WH-52"). This site also houses Marine Terminal #51, which is in the final stages of being converted to a film and production studio, under a lease between TPA and Cinespace Film Studios ("CFS"). Additionally, the Port Facility also houses the Cruise Ship Terminal ("CST"), which currently services the cruise ship industry and has been used as a location for film productions and event space. A portion of the CST is also being leased to CFS for film production.

The TPA continues to promote mixed use at its Port Facility including bulk handling and storage, general and project cargo, as well as container packing and unpacking services. With its preferred location and a growing population in Toronto and surrounding areas, the Port Authority will continue to pursue additional opportunities around the construction industry for its Port Facility in 2019.

In 2018, 2.180 million metric tonnes of cargo moved through the Port of Toronto, surpassing the record-breaking year the port experienced in 2017. There were 161 ship visits, bringing sugar, salt, cement, aggregate and steel directly to the heart of the City, bypassing road congestion along the way. In 2018, eight of the ships brought a range of steel products from around the world, including rebar, merchant bar, steel plate and coils, totaling 69,281 metric tonnes. This represented the highest amount of steel product that moved through the port in 20 years. In addition to traditional marine cargo, the Port of Toronto is a growing cruise ship destination, with 17 cruise ships bringing a total of approximately 6,000 passengers to visit Toronto via the CST in 2018. These numbers are expected to double to 35 cruise ships and 12,000 passengers in 2019.

Marine cargo arriving and managed at the Port of Toronto generated \$377.7 million in economic activity and 1,566 jobs in Ontario in 2017 according to a new report published by Martin Associates in 2018.

The financial performance of the Outer Harbour Marina remains positive and consistent. Demand for winter storage, which includes two heated indoor storage facilities, remained strong in the 2018-2019 winter season and summer berthing renewals also remain strong. Low interest rates continue to create an inducement by encouraging consumers, led by people aged 45 to 65, to buy more and bigger recreational boats. New technology in both the power and sail categories is making it much easier for novice boaters to operate larger boats. This is important as the Port Authority replaced its smaller twenty year old docks with an inventory of larger boat slips.

Billy Bishop Toronto City Airport is Canada's ninth-busiest airport and welcomed 2.807 million business and leisure travelers in 2018. This was up from 2.766 million in 2017. The Airport is Canada's sixth busiest in terms of passenger service to the United States. BBTCA's close proximity to downtown Toronto and introduction of the Pedestrian Tunnel on July 30, 2015 provides time sensitive travelers the predictable convenience and service they demand. The convenience of BBTCA is evident, as 41% of passengers choose to walk, bike, take public transit or the complimentary shuttle bus from the Airport.

BBTCA is an important international gateway and a key driver of Toronto's economy, generating more than \$470 million in Gross Domestic Product (GDP) and supporting 4,740 jobs, including 2,080 directly associated with airport operations, according to a study by InterVISTAS.

*(In thousands of dollars)*

The TPA is an important part of the Southern Ontario Gateway as it is one of five ports of significance in the province, while the Billy Bishop Toronto City Airport (the “BBTCA” or “Airport”) is one of the key members of the Southern Ontario Airport Network with the capability to provide international and regional service. In this regard, the TPA is and will remain an important factor in the economic health of Southern Ontario.

### **Financial Considerations**

#### **Sale of 30 Bay/60 Harbour Street Property (Please see Note 16 in the 2018 Audited Financial Statements)**

On May 1, 2017, the Toronto Port Authority sold its 1.8-acre site at 30 Bay Street and 60 Harbour Street to Oxford Properties Group (“Oxford”) and Canada Pension Plan Investment Board (“CPPIB”). The transaction price was agreed at \$96,000, a portion of which will be paid over three years from the date of closing.

The proceeds of the Sale of the 30 Bay/60 Harbour Street Property are being managed under a policy that establishes a set of criteria for use of the funds. The primary objective of the policy is to protect and preserve the proceeds in order to be able to use the funds to support strategic infrastructure and investments that have acceptable returns when measured under a risk/reward analysis.

In addition, the proceeds will be used to fund certain projects that meet the criteria for an ESG project expenditure (either capital or operating in nature).

The guiding principles for assessing and evaluating a potential expenditure under ESG include the following:

- there is a tangible environmental benefit that the project or expenditure will generate that will benefit PortsToronto and/or the harbour community within which PortsToronto operates;
- there are social and/or socio-economic benefits for stakeholders and the community that add to the quality of life of those within close proximity to the Airport, Port and other PortsToronto operations; and
- the expenditure will improve the governance of PortsToronto and/or enhance the interaction and relationship between PortsToronto and stakeholders at certain levels.

The proceeds are included as part of Cash and Cash Equivalents, Short-term Investments and Long-term Investments on the Consolidated Statement of Financial Position on page 5 in the 2018 Audited Financial Statements.

*(In thousands of dollars)*

Pedestrian Tunnel to the Airport (Please see Note 15 in the 2018 Audited Financial Statements)

On March 8, 2012, the Port Authority entered into a Project Agreement for the design, build, finance, operation and maintenance of a pedestrian tunnel (the “Pedestrian Tunnel”) under the Western Channel linking mainland Toronto to the Airport. The project is in the form of a twenty-year concession agreement wherein the Port Authority makes monthly service payments (“MSPs”) using a portion of the Airport Improvement Fee (“AIF”) collected from enplaning (departing) passengers at the Airport. Effective, April 1, 2018, the AIF was reduced from \$20.00 to \$15.00 per departure. In comparison, each passenger at Toronto Pearson currently pays an AIF of \$25.00 per departure. In addition, Toronto Pearson charges a connecting passenger fee of \$4.00 per passenger, while BBTCA currently does not have a connecting passenger fee.

The base construction cost of the Pedestrian Tunnel was \$82,500 and it was substantially complete and accepted by the Port Authority on May 29, 2015. The Tunnel was officially opened to the public and stakeholders on July 30, 2015. Ownership of the Pedestrian Tunnel is vested with the Port Authority.

The capital asset value recorded as at December 31, 2018 on the Pedestrian Tunnel was \$110,418, with a related liability of \$65,609 (current portion \$2,643 and non-current portion \$62,966). The capital asset includes the construction cost, as well as other costs such as engineering, legal, consulting and financing costs.

Payments to Government Stakeholders

The TPA annually pays a charge on its gross revenue to the federal government based on the calculated gross revenue in each fiscal year. For 2018, the amount paid to the federal government was \$3,000 (\$3,033 in 2017). In addition, the TPA pays Payments-in-lieu of Taxes (“PILTs”) to the City of Toronto. The PILTs paid by TPA in 2018 was \$3,155 (\$3,275 in 2017). The amounts accrued and paid to the federal government and to the City of Toronto together total \$6,155 for 2018 and \$6,308 for 2017, representing 10.3% and 10.4% of the Port Authority’s Operating Revenue in fiscal years 2018 and 2017, respectively.

Restatement of 2017 comparative figures

Note 3 on page 18 of the Audited Financial Statements identifies a prior period adjustment related to the Port Authority’s share of a refinancing gain related to the Pedestrian Tunnel project. In 2017, the amount was recorded as a reduction to the cost of the Tunnel asset. In 2018, it was determined that the refinancing gain should have been recognized as revenue in the prior year. The restatement of 2017 reflects the correct accounting treatment. The impact and details on the prior year’s balances are found in Note 3 in the 2018 Audited Financial Statements.

(In thousands of dollars)

## **Board of Directors Governance**

The TPA is governed by a Board of Directors appointed by three levels of government as pursuant to section 14 (1) of the *Canada Marine Act*, and section 4.6 of the TPA's Letters Patent. Six directors are appointed by the Governor-in-Council as nominated by the Minister of Transport in consultation with the user groups, one director is appointed by the Governor-in-Council as nominated by the Minister of Transport, one director is appointed by the Province of Ontario and one director is appointed by the City of Toronto. There are four (4) Committees of the Board of Directors, namely the Audit & Finance Committee, the Governance & Human Resources Committee, the Communications & Outreach Committee and the Pension Committee. Mr. Robert Poirier was first elected Chair of the Board on August 20, 2015. Mr. Poirier remains the Chair as of the date of this Report.

## **Fiscal Period – January 1 to December 31, 2018 versus 2017**

### **Consolidated Statement of Operations & Comprehensive Income (Financial Statements-Page 3)**

Operating revenues totaled \$60,029 in 2018, a slight decrease of \$876 from 2017 revenue of \$60,905. Operating expenses increased by \$1,667 in 2018 versus 2017, from \$35,452 to \$37,119.

Revenues reported as Port Operations, Outer Harbour Marina, Airport, Property and Other, not including the Airport Improvement Fees, were \$42,476 in 2018 versus \$39,955 in 2017, an increase of \$2,521. The main source of the increase was Port revenue, with a year over year increase of \$2,656. The Marina was higher by \$235, Billy Bishop Airport lower by \$1,455 and Property lower by \$609. Investment Income was higher by \$1,694. Property revenue decreased in 2018 from 2017, with the sale of the 30 Bay/60 Harbour Street Property on May 1, 2017.

Wages, salaries and employee benefit expenses were \$14,167 in 2018, higher by \$2,192 versus 2017. Overall increases were mainly due to labour requirements and hiring of staff for port operations and the Airport and the recognition of a past service cost in corporate. Repairs and maintenance for the Port Authority decreased in 2018 by \$1,433, from \$8,087 in 2017 to \$6,654 in 2018; the effect on all operations of record high water levels and other non-routine events in 2017, that did not reoccur in 2018.

Professional and consulting fees decreased by \$133 in 2018 to \$2,095, mainly due labour matters across all business operations in 2017. Net property taxes were down to \$52 in 2018, from \$143 in 2017, as 2018 was a full year without taxes for 30 Bay/60 Harbour Street. Other operating and administrative expenses were up \$1,132 due to higher operating costs.

*(In thousands of dollars)*

**Please refer to page 38, Note 17 as a reference for the following discussion.**

In 2018, all four main business units of the Toronto Port Authority were profitable. Included in net income from operations are the AIF collected from enplaning/deplaning Airport passengers. The number of enplaned and deplaned passengers combined (not including connecting passengers) increased by 4% in 2018, from 2017. It should be noted that the AIFs are restricted revenues that can only be used for Airport capital projects and expenditures. Included under Airport expenses are interest and amortization related to the Tunnel and other Airport capital expenditures.

### Port Operations

Port revenues are generated from operations at the Marine Terminal Property and include terminal handling charges, container services, berthing and ships services. In addition, revenue is generated from the Cruise Ship Terminal, including rent and charges for cruise ships. From waterside, there are harbour user fees paid by tour and charter boats and cargo dues paid by large industrial ships. Finally, the Works & Environmental Services department generates revenue from services provided to port users and other general customers.

The operating bottom line for Port Operations was net income of \$3,645 in 2018. This was substantially higher than 2017 by \$2,553, as terminal handling charges, property revenue (rent), storage revenues and Works services were up in 2018. Expenses were slightly higher due to higher labour costs and operating materials, offset by lower repairs and maintenance costs with the various non-routine events, such as high water levels, occurring in 2017. Total Port tonnage was 2,179,795<sup>1</sup> in 2018 versus 2,172,750<sup>1</sup> in 2017, showing the consistent performance at the Port, year-over-year, highlighted by the return of high-value steel cargoes in 2018.

### Outer Harbour Marina

The Outer Harbour Marina continued its steady performance, with net income of \$1,904 in 2018, an increase of \$56 from net income of \$1,848 in 2017.

The occupancy rate for summer berthing increased to just above 91% in 2018 and stayed at 100% for winter outdoor and indoor storage. The annual customer turnover rate remained very low in 2018.

In addition to berthing and storage, marina services include shore power, pump-outs, power wash, fresh water and the sale of fuel and other products. There is also a 50-ton travellift for haul out and launch, and masting/demasting services.

Revenues at the Outer Harbour Marina were up \$235, as winter storage fees and boat services revenue increased in 2018 versus 2017. The addition of a second heated indoor storage facility continues to be fully utilized. A trend towards larger boats as well as rate increases continue to push revenues higher.

Expenses were up \$179 from 2017 to 2018, due primarily to higher operating costs, which includes replacement parts for equipment.

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<sup>1</sup> *Actual numbers, not rounded to the nearest thousand.*

*(In thousands of dollars)*

### Billy Bishop Toronto City Airport

In 2018, operations at the Airport continued to grow under a managed growth strategy. The two main revenue sources at the Airport are (a) airport operating fees charged to scheduled carriers based on slot allocation and usage, and (b) AIF, which was reduced to \$15.00 effective April 1, 2018. The AIF is funding the Airport's ongoing capital expenditure program, including debt service on existing bank loans and the Pedestrian Tunnel MSPs.

The increase in passenger volumes in 2018 and ongoing Airport activity resulted in strong Airport revenues of \$43,689 in 2018, versus \$48,541 in 2017. The reduction in the AIF was the main factor in the reduction in year-over-year revenue.

On the expense side, there was a slight increase of \$267 in 2018, with higher labour costs and consulting, offset by lower maintenance and repair costs.

### Property and Other

Property and Other accounted for net income of \$163 in 2018, a decrease of \$489 versus 2017. This was mainly due to loss of rental income with the sale of the 30 Bay/60 Harbour Street Property.

### Investments

Investment Income was up \$1,694 in 2018 versus 2017, due to investment income earned on the proceeds from the sale of 30 Bay Street/60 Harbour Street Property.

### Corporate Services

Corporate services support TPA operations by providing general administrative support and services. These include executive, finance, accounting, human resources, communications, information technology, legal, risk management, promotion and the functioning of the Board of Directors. General expenses related to TPA, but not related to any particular operation, are assigned to Corporate Services.

Corporate services expenses were up \$1,238 in 2018 due to the recognition of a past service cost and additional rent paid by the Port Authority for its tenancy at 60 Harbour Street.

### Payments-in-Lieu of Taxes to the City of Toronto (Please see Note 9 in the 2018 Audited Financial Statements)

The Port Authority was added to provincial regulations on October 30, 2017 for the purposes of Payments-in-Lieu of Taxes at Billy Bishop Airport. The Port Authority pays Airport PILTs to the City of Toronto based on a per passenger amount.

Of the eighteen Federal Port Authorities in Canada, the TPA pays one of the highest PILTs amounts as a percentage of gross revenue, ranking second on the list as per 2017 reports. In 2018, PILTs amounts were \$3,155, versus \$3,275 in 2017.

*(In thousands of dollars)*

### Other Items

The remaining items including amortization, interest expense, the charge on gross revenue and the ineffective portion of the interest rate swap are deducted to produce net income for the year. In 2017, the gain of sale of the 30 Bay/60 Harbour Street Property was added to net income.

The loss (gain) on interest rate swap and unamortized gain and past service costs are then added, resulting in comprehensive income for the year.

### **Consolidated Statement of Changes in Equity (Financial Statements – Page 4)**

The Statement of Changes in Equity had an opening balance in Equity on January 1, 2017 of \$123,454, which included an Accumulated Other Comprehensive gain of \$9,264. The ending balance as at December 31, 2017 included the Net Income for the year of \$94,948, plus the Unamortized Gain and Past Service Costs – IAS19R of \$1,595, plus Amortization of the Accumulated Loss on Derivative Interest of \$91, plus the gain on Interest Rate Swap – Effective Portion of \$383, for a closing Equity balance as at December 31, 2017 of \$220,471. The Amortization of \$91 is included in the Loss on Interest Rate Swap in the Statement of Operations and Comprehensive Income.

The ending balance in Equity as at December 31, 2018 included Net Income for the year of \$3,525, plus a Pension Gain as a result of Remeasurement of the liability - IAS19R of \$951, plus Amortization of the Accumulated Loss on Derivative Interest of \$91, less the Loss on Interest Rate Swap – Effective Portion of \$39 for a closing Equity balance as at December 31, 2018 of \$224,999. The Amortization of \$91 is included in the Gain on Interest Rate Swap in the Statement of Operations and Comprehensive Income.

### **Consolidated Statement of Financial Position (Financial Statements – Page 5)**

Cash and cash equivalents and Short-term Investments are separated into two groups, one being assets that are not restricted in use as to business unit, and the other identified as AIF Restricted that can only be used for Capital Expenditures at BBTCA. Cash and Cash Equivalents and Short-term Investments have gone down from \$65,161 at the end of 2017 to \$62,910 as at December 31, 2018, a decrease of \$2,251. Cash and Cash Equivalents that are AIF Restricted have gone down from \$7,373 at the end of 2017 to \$2,268 as at December 31, 2018, a decrease of \$5,105. An analysis of the Statements of Cash Flows is included below.

Accounts Receivable increased from \$7,642 at the end of 2017 to \$8,597 at the end of 2018. The aging of Receivables are found on Page 20, Note 4 to the Audited Financial Statements. The increase of \$955 was mainly due to the increased revenues at the Port and Airport at the end of 2018.

The Port Authority holds two notes receivable with a carrying value of \$16,318 (2017 - \$24,114) and face value of \$17,333 (2017 - \$26,000) related to the sale of the 30 Bay Street/60 Harbour Street Property. The notes are non-interest bearing and payable in equal annual amounts of \$8,667, due on May 1 of each of the three years with maturity on May 1, 2020.

Comparing December 31, 2018 to December 31, 2017, Inventories were higher by \$2 and Prepaid Expenses decreased by \$151.

*(In thousands of dollars)*

Long-term investments are \$13,086 at the end of 2018, up from \$6,489 as at December 31, 2017.

The details on Capital Assets are found on Page 25 and 26, Note 6. Capital Assets increased by \$15,433 in 2018 and on a Net Book Value basis the increase was \$7,092, when amortization, disposals and outside funding for capital projects are taken into account.

The details of the gross increase are as follows:

Port Operations	\$3,341
Outer Harbour Marina	\$1,552
Billy Bishop Toronto City Airport	\$10,076
Property & Other	<u>\$464</u>
Total	<u>\$15,433</u>

There were higher Capital Expenditures in 2018 as compared to 2017, including the Eastern Channel West Break Wall removal project, renovations in Warehouse 52 at the Marine Terminal Property, restoration of washroom facilities at the Outer Harbour Marina, the BBTCA airfield rehabilitation project, the construction of an Airport non-passenger vehicles screening point and the purchase of Canada Customs primary inspection kiosks at the airport.

Amortization allocated to operations over the years is deducted from the Capital assets, as well as amounts received for capital funding from various sources.

Accounts Payable and Accrued Liabilities have decreased by \$581 from 2017 to 2018.

The Fair Value of the Interest Rate Swap represents the closing balance following the decrease in the loss in value in 2018 of \$163.

The current portion of the Bank Loans is the principal amount to be repaid in the next fiscal year, in this case 2019.

Unearned Revenue increased by \$209 in 2018 versus 2017. This liability records the amount of Unearned Marina revenue the Port Authority will provide to customers by way of services in the upcoming year, as well as Unearned Harbour Permits and Unearned Rents.

Bank Loans are described on Page 31, Note 8(a).

The Pedestrian Tunnel Concession Liability is described on Page 36 and 37, Note 15.

Employee Benefit Liabilities represents the liability recognized for Port Authority Benefit Plans and are described on Pages 27 to 30, Note 7.

Equity represents the difference between Assets and Liabilities. Equity increased in 2018 by \$4,528, as detailed on the Statements of Changes in Equity on Page 4.

*(In thousands of dollars)*

The financial liquidity of the Port Authority is strong, with a Current Ratio (Current Assets divided by Current Liabilities) of 5.26 as at December 31, 2018. This is slightly lower from the Current Ratio as at December 31, 2017 of 5.52.

The financial performance ratio was lower in 2018, with a Profit Margin (Net Income, excluding gain on sale of the 30 Bay/60 Harbour Street Property divided by Gross Revenue) of 5.9% in 2018 compared to 10.6% in 2017.

### **Consolidated Statement of Cash Flows (Financial Statements - Page 6)**

The Statements of Cash Flows begins with the Net Income reported in the Statement of Operations and Comprehensive Income and adds back or deducts any non-cash items. These include Amortization, Employee Future Benefit Expense, Employer Contribution to Future Benefit Plans, the Unamortized Gain and Past Service Costs – IAS19R, Interest Expense offset by Bank Interest Paid, the (Gain)/Loss on the Derivative Designated as a Cash Flow Hedge and AIF Restricted Cash. An amount is then added or deducted for non-cash working capital. In 2018, this amount resulted in a decrease in cash of \$1,178. This was mainly due to the increase in Accounts Receivable of \$955, the increase in Inventories of \$2, the decrease in Accounts Payable of \$581, offset by the increase in Unearned Revenue of \$209, and the decrease in Prepaid Expenses of \$151.

Investing Activities and Financing Activities are then listed. Investing Activities include payment received on note receivable, increases in Short-term and Long-term Investments and the Acquisition of Capital Assets listed above. Financing Activities include items related to the Pedestrian Tunnel and Bank Loans.

The end result is that the Cash and Cash Equivalents position decreased in 2018 by a total of \$28,456 from \$29,723 to \$1,267. The large reduction in Cash and Cash Equivalents from 2017 to 2018 reflects the increase in Short-term Investments of \$26,205, carried out to increase the rate of return on investments. This balance does not include Short-term Investments of \$61,643 and Cash and Cash Equivalents – AIF Restricted \$2,268, which decreased by \$5,105 in 2018 from \$7,373 in 2017. As part of the Pedestrian Tunnel Project Agreement, as at December 31, 2018, the Port Authority had a Prepaid Threshold Tunnel Deposit of \$8,401. The TPA continues to invest its cash resources in infrastructure improvements and initiatives that benefit all of its business operations.