

**TORONTO PORT AUTHORITY**  
**MANAGEMENT'S DISCUSSION & ANALYSIS – 2010**

**(in thousands of dollars)**

**April 15, 2011**

*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 for the years ended December 31, 2010 and 2009 and should be read in conjunction with the audited financial statements and accompanying notes.*

**Summary**

The Toronto Port Authority ("Port Authority", "TPA") was profitable in 2010 for the third consecutive year. Net Income from Operations was \$8,978, up from \$5,137 in 2009, with overall Net Income of \$7,106, compared to \$1,346 in 2009. Factoring in the Other Comprehensive Loss, the bottom line was in total, a Comprehensive Gain of \$6,860.

In 2010, three of the four main business areas of the Toronto Port Authority were profitable on an operating basis. Port Operations fell short of break-even; however, 2011 is expected to be a turnaround year for the Port.

**Introduction**

The Toronto Port Authority ("Port Authority", "TPA") was incorporated on June 8, 1999 as a government business enterprise under the *Canada Marine Act* as the successor to The Toronto Harbour Commissioners.

The Toronto Port Authority is responsible for operating the lands and harbour 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 help realize these objectives.

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 Airport is one of four airport facilities in the region with the capability to provide international service. In this regard, the TPA is and will remain an important factor in the economic health of Southern Ontario.

The main operations of the Port Authority are Port Operations, the Outer Harbour Marina ("OHM"), the Billy Bishop Airport ("BBA") and Property/Rental.

The TPA owns and operates Marine Terminal 51 and Warehouse 52 ("Marine Terminals") located at the foot of Cherry Street and has contracted with Logistec Stevedoring Inc. to

*(in thousands of dollars)*

manage this operation. The TPA also owns the International Marine Passenger Terminal ("IMPT"), which currently services the cruise ship industry and has been used as a location for film productions.

The TPA is actively pursuing a construction products distribution initiative whereby the Marine Terminals would be a central distribution and storage hub for products used in the construction of buildings and infrastructure. This would offer quick turn-around for the supply of products in demand and would generate environmental benefits from the close proximity of the facility to major construction projects in Toronto.

With a solid economy and a growing population in Toronto and surrounding areas, there is renewed interest in the Port of Toronto. There are several projects related to transportation and infrastructure that the Port Authority is pursuing for 2011.

For the Outer Harbour Marina the economic downturn had no effect on business and financial performance. Demand for winter storage remained strong in the 2010-2011 winter season and summer berthing renewals also remain strong. Low interest rates continue to create an inducement 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 buy bigger boats. This is important as the Port Authority is replacing its smaller twenty year old docks with an inventory of larger boat slips and has plans to build Phase II of the Marina, adding 435 new larger slips, in the forty to fifty foot range.

The Billy Bishop Airport has a competitive advantage in the market that includes Toronto-Pearson, Hamilton and Buttonville. Its close proximity to downtown Toronto provides time sensitive, environmentally conscious travelers the convenience and service they demand.

In early 2010, the new larger ferry, christened the M/V Marilyn Bell I went into service at the Billy Bishop Airport. The Airport now has two new ferries available for service with the Marilyn Bell I as the main ferry and the M/V David Hornell built in 2006, serving as back-up.

During 2010, the Port Authority commenced a Public Private Partnership ("P3") procurement process to obtain proposals to design, build, finance and maintain a pedestrian tunnel under the Western Channel between the mainland and the Airport. The process included a Request for Expressions of Interest and subsequent Request for Qualifications which resulted in the selection of three qualified proponents. An environmental assessment was undertaken and completed in March 2011. The assessment indicated the project is not likely to cause significant adverse environmental effects. Some mitigation methods were recommended during construction which the Port Authority will ensure are implemented. In early April 2011, the Port Authority issued a Request for Proposals ("RFP") to the three qualified proponents chosen during the RFQ phase and will now work with the proponents through a collaborative process until the deadline for the RFP submission.

The cost to design, build, finance and maintain the pedestrian tunnel will be borne by departing (enplaning) passengers through the Airport's existing \$20 Airport Improvement Fee ("AIF"). For comparison purposes, each passenger at Pearson International Airport currently pays an AIF of \$25 per departure.

*(in thousands of dollars)*

The amount spent to the end of December 31, 2010 on the pedestrian tunnel was \$1,745 and is included under Capital Assets as work-in-progress.

The TPA annually pays a charge on Gross Revenue to the federal government based on the calculated gross revenue in each fiscal year. For 2010, the amount paid to the federal government was \$1,318.

### **The Toronto Port Authority and the City of Toronto**

#### **Macro Agreement – Toronto Port Authority and City of Toronto**

The terms of the Macro Agreement included the City acquiring an 18.42 acre parcel of land on the site of the Sewage Treatment Lands (“Land”) that the Toronto Transit Commission is expected to use for public transportation purposes. In addition, the payment by the City of \$11,700 in Settlement Payments to the Port Authority, the payment by the Port Authority of \$6,419 to the City for Payments in Lieu of Taxes for 1999 to 2009 and an agreement on Harbour User Fees to be paid by the City to the Port Authority for services provided to the Toronto Island ferries.

The City also agreed to provide the Port Authority with six post-dated cheques of \$850 each, representing the remaining Capital Payments under the 2003 Settlement Agreement, three of which have now been cashed. The Agreement also included a net interest calculation in favour of the Port Authority. The final transfer of the Land to the City (carrying value \$780) and the payment to the Port Authority of settlement payments, interest and Harbour User Fees totalling \$6,665 took place at closing on July 28, 2010.

*(in thousands of dollars)*

**Fiscal Period – January 1 to December 31, 2010 versus 2009**

**Statement of Revenue and Expenses (Financial Statements – Page 4)**

The 2010 Net Income from Operations for the Toronto Port Authority (“TPA”) was \$8,978, an improvement of \$3,841 from the 2009 operating profit of \$5,137. This is before Payments in Respect of Land Disposition, Payments in Lieu of Taxes and Amortization. This is also before the one-time adjustment of \$780 for Land Transferred under the Macro Agreement. There were several reasons for the improvement in operating results in 2010, explained below in the different sections of the analysis.

The major reason for the improved result came from the operations of Billy Bishop Airport. Driven by a continuing increase in revenues (74% in 2010 and 25% in 2009), the Airport generated an operating profit of \$12,532 in 2010; an improvement of \$6,661 over 2009, when the operating profit was \$5,871. This growth trend at the Airport is expected to continue in 2011 as passenger volumes are expected to exceed 1.5 million passengers in 2011. Enplaned and deplaned passengers in 2010 totaled 1,130,625 versus 770,681 in 2009. Phase One of the new Air Terminal at the Airport opened on March 7, 2010, with seven aircraft gates and Phase Two opened in December 23, 2010, with three additional gates and many attractive amenities for passengers.

The operating bottom line for Port Operations was a loss of \$462. This compares to a Net Income from Operations of \$518 in 2009.

The Outer Harbour Marina continued its steady performance, with a profit of \$1,189; an increase of \$125 over the profit of \$1,064 in 2009.

Property and Other accounted for a profit of \$1,350 in 2010, an improvement of \$137 over 2009.

Investment Income was \$358 in 2010 versus \$921 in 2009. The interest earned on the Macro Agreement accounts for a large part of the 2010 amount. Corporate Services expenses were up \$851 and the Charge on Gross Revenue increased by \$688.

A decrease in the Payments in Respect of Land Disposition of \$68, an increase of \$325 in the amount accrued for Payments in Lieu of Taxes, a decrease of \$134 in Amortization and the \$780 adjustment for the Lands Transferred under the Macro Agreement accounted for the remaining change in the overall bottom line. Net Income increased from \$1,346 in 2009 to \$7,106 in 2010, an increase of \$5,760, or 428%.

**Port Operations**

Port revenues are generated from the operation of the Marine Terminals and include terminal handling charges, container services, terminal berthing and ships services. In addition, revenue is generated from the International Marine Passenger Facility (“IMPT”), including charges for cruise ships and filming. From waterside, there are Harbour User Fees paid by Tour and Charter boats and Cargo Dues paid by large industrial ships. Finally, the Works &

*(in thousands of dollars)*

Environmental Services department generates revenue from services provided to Port users and other general customers.

Port revenue was down in 2010 by \$828 versus 2009, as port activities slowed, both in terms of Terminal Handling Fees and Storage Fees for cargoes. The Keating Channel Dredging project was cancelled in 2010, as the Keating Channel Bridge underwent repairs. This resulted in less revenue generated by the TPA Works Department. Harbour User Fees were also lower in 2010.

Port expenses increased by \$152 in 2010, as increased pension contributions more than offset savings from Operating Materials and Utilities from lower port activity.

#### Outer Harbour Marina (“OHM”)

The occupancy rate for summer berthing at the OHM increased in 2010 to 96% from 90% in 2009 and remained at 100% for winter storage. This despite the occurrence of the economic downturn in 2008 and 2009. There is an ongoing turnover rate of approximately 5% for summer contracts.

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 35-ton travellift for haul out and launch, and masting/demasting services.

Revenues at the Outer Harbour Marina were up \$109, as berthing revenues, winter storage and fuel sales increased in 2010 versus 2009. A trend towards larger boats as well as rate increases continue to push revenues higher, as customers pay fees based on Overall Length of Boat.

Expenses were down \$16 from 2009 to 2010, a marginal decrease of 1%. Cost of Fuel Sales and Salaries, Wages and Benefits offset a reduction in Bad Debt Expense.

#### Billy Bishop Airport (“Airport”)

In 2010, operations at the Airport continued to grow; with the completion of the fourth full year of new carrier operations, a new larger ferry and the opening of the new Airport Terminal. Carrier Landing Fees converted to Airport Operating Fees on May 1, 2010 and Airport Improvement Fees (“AIF”) increased from \$15 to \$20, effective April 1, 2010. These are the two main revenue sources at the Airport, with Airport Operating Fees charged based on slot allocation and AIF collected from enplaning/departing passengers. The Airport Improvement Fee is funding the Airport’s ongoing capital expenditure program, including debt service on the existing Bank Loans.

The fourth full year of operations for Porter Airlines continued to drive Airport revenues higher, with 2010 revenue at \$23,301 versus \$13,402 in 2009, a \$9,899 improvement. The number of Enplaned Passengers paying AIF in 2010 was 566,362, up from 375,737 in 2009, or 51 %.

*(in thousands of dollars)*

Passenger volumes are expected to grow in 2011, as Porter Airlines is now operating more flights and destinations with its assigned slots. In addition, the start-up of Air Canada on May 1, 2011 will also increase passenger volumes.

On the expense side, there was an increase of \$3,238 in 2010, due primarily to increases in Salaries, Wages and Benefits, Operating Materials, Consulting Services, Legal Fees, Security and Payments-in-lieu of Taxes. Additional personnel were hired in 2010 to manage the dramatic growth in passenger volume and business activity.

#### Property and Other

Revenues from ancillary property holdings and other sources, such as filming, were up \$219 in 2010 over 2009. Rent from lands at the eastern end of the Ship Channel accounted for an increase of \$68. These lands are an integral part of the 2003 City Settlement Agreement and confer a right to TPA to lease the lands, pursuant to the terms of a Ground Lease with the Toronto Portlands Company, formerly the Toronto Economic Development Corporation ("TEDCO").

Expenses increased \$82 in 2010, as increased Salaries, Wages and Benefits, Maintenance and Repairs, more than offset lower Legal Fees, 2010 versus 2009.

#### Investments

Investment Income decreased by \$563 in 2010 versus 2009, most of which related to the recognition of interest from the 2009 City Settlement Agreement. Interest on general investment holdings was higher in 2010, with the increased cash and investment position.

#### Corporate Services

Corporate Services support the operations of the Toronto Port Authority by providing general administrative support and services. These include executive, finance, accounting, human resources, 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.

Expenses in Corporate Services increased in 2010 by \$851, over 2009. The cost of the Special Review Audit done in 2010 accounted for most of the increase, with Salaries, Wages and Benefits higher in 2010 versus 2009.

#### Payments in Respect of Land Disposition

These amounts are the Operating Payments from the City Settlement Agreement and were lower in 2010 by \$68 due to additional rental amounts received for leased land at the eastern end of the Ship Channel. The \$68 is reported in the Property and Other revenue line, as indicated above.

*(in thousands of dollars)*

**Lands Transferred (Macro Agreement)**

This represents the final transfer of the 18.42 acre parcel of land to the City of Toronto for TTC purposes, with a carrying value of \$780.

**Payments in Lieu of Taxes ("PILT")**

The amount of \$1,828 paid to the City of Toronto for 2010 represents the quantum of PILTS determined by the TPA to be fair and equitable. The PILT payment continues to increase as the TPA is paying a PILT for the Airport based on a per passenger amount.

The City of Toronto's position is that the amount of PILTS paid by the Toronto Port Authority is not sufficient. The parties are in discussions on a possible resolution.

**Amortization of Capital Assets**

These amounts charge the cost of capital assets purchased by the TPA to the operations on a straight-line basis over the estimated useful lives of the assets. Amortization decreased by \$134 in 2010, as there are an increasing number of older assets that have been fully amortized.

(in thousands of dollars)

**Balance Sheet (Financial Statements – Page 3)**

Cash and Cash Equivalents have gone from \$10,815 at the end of 2009 to \$15,541 at the end of 2010, an increase of \$4,726. An analysis of the Statement of Cash Flows is included below.

Short-Term Investments increased from \$2,141 to at the end of 2009 to \$10,191 at the end of 2010, an increase of \$8,050.

Accounts Receivable increased from \$4,670 at the end of 2009 to \$5,947 at the end of 2010. The details of the increase are found in Note 4 to the Audited Financial Statements. The increase in Trade Receivables of \$2,554 was due to large revenue accruals for amounts collected in 2011 that related to December 2010 and for other normal trade receivables. The remaining difference in Accounts Receivable is the receipt of amounts in the Macro Agreement totaling \$1,187, a decrease in the Commodity Tax receivable of \$103 and an increase in the current portion of Mortgages Receivable of \$13.

City Settlement Payments Receivable of \$11,700 as at December 31, 2009 were collected in 2010 as part of the Macro Agreement

The details of the Mortgages Receivable and Long-Term Investments are found in Note 5. The two mortgages held by the Toronto Port Authority are for hangars at the Billy Bishop Airport.

The details on Capital Assets are found in Note 8. The cost of Capital Assets increased by \$4,830 in 2010 and on a Net Book Value basis the increase was by \$3,468, when changes in amortization and the recognition of outside funding for capital projects is taken into account. The details of the gross increase are as follows:

Port Operations	\$508
Outer Harbour Marina	352
Billy Bishop Airport	4,772
Property & Other	286
Lands Transferred	<u>(780)</u>
Total	<u>\$5,138</u>

Capital Expenditures in 2010 include the purchase of Front-mounted Runway Sweepers and the renovation of a Maintenance Building at the Billy Bishop Airport. They also include costs related to the Pedestrian Tunnel. There is also I.T. Hardware and Software and continued work on the Leslie Street Landfill Site.

The Port Authority has plans for large investments in capital in 2011, including the replacement of many pieces of equipment at the end of their useful lives.

Amortization allocated to the operations over the years is deducted and amounts received for capital funding from various sources is also deducted from gross capital asset amounts.



*(in thousands of dollars)*

Note 9 describes the Deferred Site Preparation Expenditures.

Other Assets and Other Liabilities are described in Note 10 and represent accounting for Employee Future Benefits.

Accounts Payable and Accrued Liabilities have increased by \$3,305, from 2009 to 2010. This is due to increased commercial deposits, increased Trade Payables for equipment purchases and operations and an increase in the Charge on Gross Revenue.

The Fair Value of the Interest Rate Swap represents the closing balance following the loss in value in 2010 of \$291.

The current portion of the Bank loan is the principal amount to be repaid in the next fiscal year, in this case 2011.

The liability for Payments in Lieu of Taxes has decreased by \$6,030 as a large portion was netted out as part of the Macro Agreement. Note 12 describes the status of the PILTS situation.

Unearned Revenue increased by \$77, 2010 versus 2009. 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.

The Bank Loans are described in Note 11.

Deferred Revenue relates to the gain on the sale of Airport hangars. The gain is being recognized over the term of the land lease with the tenants. This is described in Note 13.

Deferred City Capital Payments are payments made to the Port Authority by the City of Toronto pursuant to the 2003 Settlement Agreement that have not yet been spent on capital. In 2010, an additional \$1,700 in Capital Payments was received by the Port Authority. The amount of these funds recognized by the Port Authority for capital in 2010 was \$919, so the difference between the amount received \$1,700 and the funds recognized in the liability was \$781. Deferred City Capital Payments increased from \$6,044, in 2009 to \$6,825 in 2010.

Equity represents the difference between Assets and Liabilities. Equity increased in 2010 by \$6,860, as detailed on the Statement of Revenue and Expenses on Page 3 and the Statement of Comprehensive Gain and Equity on Page 4.

*(in thousands of dollars)*

**Statement of Comprehensive Gain and Equity (Financial Statements – Page 5)**

Pursuant to Standards in the CICA Handbook, the Toronto Port Authority has included a Statement of Comprehensive Gain and Equity. Other Comprehensive Income includes Unrealized Gains or Losses on the Available for Sale Assets, which include Short-Term and Long-Term Investments. It also includes the gain or loss on a derivative designated as a Cash Flow Hedge described in Note 11 to the Financial Statements. The combined result for 2010 was a loss of \$246.

This loss, added to Net Income of \$7,106 results in a Comprehensive Gain of \$6,860. When added to the closing Equity from 2009 of \$49,881, Equity for December 31, 2010 totals \$56,741.

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

The Statement of Cash Flows begins with the Net Income reported in the Statement of Revenues and Expenses and adds back any non-cash items. These include Amortization, Employee Future Benefit Expense, Amortization of Deferred Revenue and Deferred Dredging and Site Preparation expenditures.

An amount is then added or deducted for non-cash working capital. In 2010, this amount resulted in a decrease in cash of \$3,971. This was due to an increase in Accounts Receivable of \$1,277, an increase in Prepaid Expenses of \$54, a decrease in Payments in Lieu of Taxes of \$6,030, offset by an increase in Accounts Payable and Accrued Liabilities of \$3,305 and an increase in Unearned Revenue of \$77. Other small changes account for the remaining \$8.

Financing Activities and Investing Activities are then listed. Financing includes items related to the Bank Loan, amounts in settlement payments received from the Macro Agreement and amounts to be received under the Airport Capital Assistance Program. Investing Activities include a decrease in Mortgages Receivable and Long-term Investments and an increase in Short-term Investments, Deferred Site Preparation expenditures for the eastern Ship Channel properties described above and the Acquisition of Capital Assets listed above.

The end result is the Cash and Cash Equivalents position increased in 2010 by a total of \$4,726 from \$10,815 to \$15,541. In future, it is anticipated that the Cash generated from operations will continue to improve, reflecting an improvement in the financial performance of the Airport as well as the other areas of the Port Authority.

*(in thousands of dollars)*

### **Board of Directors Governance**

The TPA is governed by a nine member Board appointed as per subsection 14 (1) of the Canada Marine Act, and as per section 4.6 of the Letters Patent issued to the Toronto Port Authority. There are four appointments by the user groups, three appointments by the Governor-in-Council, one by the Province of Ontario and one City of Toronto appointment to the Board of Directors. There are five (5) Committees of the Board of Directors, namely the Board Executive Committee, the Audit & Finance Committee, the Governance, Nominating & Human Resources Committee, the Communications & Outreach Committee and the Pension Committee.

The Chairmanship of the Board of Directors remained unchanged throughout 2010, with Mr. Mark McQueen in the position since January 21, 2009. Appendix A gives details of the Board meetings, Committee meetings and attendance of Directors at the Board meetings and their respective Committee meetings.

### **International Financial Reporting Standards**

The Toronto Port Authority, as a Government Business Enterprise or GBE has reviewed the impact of new requirements for reporting under International Financial Reporting Standards ("IFRS"). The TPA is finalizing its positions with respect to IFRS and will be prepared to report based on the new standards for fiscal 2011. The TPA will be reporting its financial results utilizing IFRS in a manner consistent with the other sixteen federal Port Authorities in Canada.