

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

**MANAGEMENT'S DISCUSSION & ANALYSIS – 2016  
(In thousands of dollars)**

**April 26, 2017**

*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, 2016 and 2015 and should be read in conjunction with the 2016 Audited Financial Statements (the "Financial Statements") and accompanying notes.*

**Summary**

The Toronto Port Authority, doing business as PortsToronto ("the Port Authority" or "TPA") continued to be profitable in 2016. Net Income for the year was \$6,684, up from \$5,897 in 2015. This MD&A will discuss the reasons for the increase in Net Income as well as highlight other areas impacting the Port Authority's financial performance in 2016.

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, 2016, and in the comparative information presented in these Financial Statements for the year ended December 31, 2015.

**Introduction**

The TPA was continued on June 8, 1999 as a government business enterprise under the *Canada Marine Act* as the successor to the Toronto Harbour Commissioners.

The 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 Port Authority's main business areas are Port Operations, the Outer Harbour Marina ("OHM"), the BBTCA and Property/Other.

The TPA owns and operates Marine Terminal 51 and Warehouse 52 (collectively, the "Marine Terminals") located in the Port of Toronto (the "Port"). The TPA also owns the Cruise Ship Terminal ("CST") in the Port, which currently services the cruise ship industry and has been used as a location for film productions and event space.

The TPA continues to promote mixed use of its Marine Terminals, 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 the Marine Terminals in 2017.

*(In thousands of dollars)*

In 2016, the Port of Toronto moved 1.874 million metric tonnes of cargo, marking another strong year for marine activity in the City of Toronto. There were 161 ships visits, bringing sugar, salt, cement and aggregate directly to the heart of the City, bypassing road congestion along the way. At 1.874 million metric tonnes, overall port tonnage was up 13.5%, comparing 2016 to 2015.

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 2016-2017 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 and is considering expanding the Marina to add 435 new and larger slips.

Billy Bishop Toronto City Airport is Canada's ninth-busiest airport and welcomed 2.724 million business and leisure travelers in 2016. This was up from 2.481 million in 2015. The Airport is also 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.

According to an economic impact study released in February 2015 conducted by Intervistas Consulting Inc., a leading management consulting company, BBTCA generates \$2.1 billion in annual economic output and 6,500 jobs, which includes 1,960 directly associated with the Airport. The study also found that the ongoing operations of the Airport continue to "make a considerable contribution to local employment and the provincial economy." The study was an update to an economic impact study released in November 2012.

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

- Economic Performance
- Environmental Stewardship
- Community Engagement

Through its commitment to fostering strong, healthy and sustainable communities with investments of more than \$9 million since 2009 in donations, sponsorships and in-kind contributions to community initiatives, activities and events that facilitate the long-term success and growth of the people who live, work and visit the Toronto waterfront area, ongoing local job creation and working to reduce the organization's carbon footprint, the Port Authority is dedicated to environmental, social and governance factors ("ESGs") that are very important to a port authority operating in a burgeoning community.

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 four airport facilities (Toronto Pearson, Waterloo, Hamilton) 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.

*(In thousands of dollars)*

Pedestrian Tunnel to the Airport (Please see Note 14 in the 2016 Audited Financial Statements)

On March 8, 2012, the Port Authority entered into a Project Agreement with Forum Infrastructure Partners (“Forum”) to design, build, finance, operate and maintain 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”) to Forum using a portion of the \$20.00 Airport Improvement Fee (“AIF”) collected from enplaning (departing) passengers at the Airport. For comparison purposes, 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 in the Port Authority.

The capital asset value recorded as at December 31, 2016 on the Pedestrian Tunnel was \$110,418, with a related liability of \$70,435. The capital asset includes the construction cost, as well as other costs such as engineering, legal, consulting and financing costs.

The comparative operating costs of the Pedestrian Tunnel included in the Airport Business Unit Expenses in Note 16, between 2016 and 2015, were \$10,160 and \$6,058 respectively, with 2015 being a partial year beginning on July 30, the date the Tunnel opened to the public.

30 Bay /60 Harbour Street Development Project (Please see Note 15 in the 2016 Audited Financial Statements)

On September 9, 2013 the Toronto Port Authority signed an Agreement with Oxford Properties to develop the approximately 1.8 acre site at 30 Bay Street and 60 Harbour Street, owned by the Port Authority. The development as contemplated in the Agreement is not proceeding, however, the Port Authority has agreed to pursue an alternative arrangement with Oxford that will maximize the value of the asset and refurbish the historic Toronto Harbour Commission building. Details of the new arrangement will be made available once certain conditions have been satisfied.

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 2016, the amount paid to the federal government was \$3,294 (\$2,748 in 2015). In addition, the TPA pays Payments-in-lieu of Taxes (“PILTs”) to the City of Toronto. The PILTs paid by TPA in 2016 was \$3,249 (\$6,343 in 2015). PILTs in 2015 included amounts related to a settlement with the City of Toronto for the TPA’s non-airport properties for 2015 and prior years. The amounts accrued and paid to the federal government and to the City of Toronto together total \$6,543 for 2016 and \$9,091 for 2015, representing 11.0% and 15.9% of the Port Authority’s Operating Revenue in fiscal years 2016 and 2015 respectively.

*(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. 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. The Chairmanship of the Board of Directors changed in 2015, with Mr. Robert Poirier elected as chair as of August 20, 2015. Mr. Poirier remains the Chair as of the date of this Report.

## **Fiscal Period – January 1 to December 31, 2016 versus 2015**

### **Consolidated Statement of Operations and Comprehensive Income (Financial Statements – Page 3)**

Revenues totaled \$59,696 in 2016, an increase of \$2,575 over 2015 Revenue of \$57,121. Expenses increased by \$5,168 in 2016 versus 2015, from \$44,725 to \$49,893.

Revenues reported as Port Operations, Outer Harbour Marina, Airport, Property and Other, not including the Airport Improvement Fees, were \$38,933 in 2016 versus \$37,679 in 2015, an increase of \$1,254. The main source of the increase was an increase in Airport revenue, with a year over year increase of \$1,289. Port Operations was lower by \$97, the Marina higher by \$295 and Property lower by \$133. Investment Income was lower by \$100.

Salaries, Wages and Employee Benefits Expenses were \$11,849 in 2016, higher by \$762 versus 2015. Overall increases were mainly due to hiring of staff at the Airport and Corporate departments. Repairs and Maintenance for the Port Authority increased in 2016 by \$1,604, from \$5,416 in 2015 to \$7,020 in 2016. This was primarily due to the payment of a full year of Tunnel costs in 2016 and related maintenance costs, compared to a partial year in 2015.

Professional and Consulting Fees decreased by \$2,189 in 2016 to \$1,642, due to lower consulting fees at the Airport in 2016 compared to 2015, when costs related to the jet proposal were charged to operations. These were partially offset by higher consulting fees in Corporate.

Amortization increased in 2016 over 2015 by \$2,083, mainly due to amortization of the Tunnel capital costs that commenced in July 2015.

Interest Expenses were up by \$1,953 in 2016 versus 2015, due to the opening of the Tunnel as an operating asset.

PILTs were lower in 2016 by \$3,094 as amounts related to the settlement with the City of Toronto for 2015 and prior years were accrued and paid in 2015.

*(In thousands of dollars)*

**Please refer to page 34, Note 16 as a reference for the following discussion.**

In 2016, all four main business units of the Toronto Port Authority were profitable. Included in Net Income from Operations are the AIF collected from enplaning/departing passengers. The number of enplaned and deplaned passengers in 2016 combined (not including connecting passengers) increased by 4.0% in 2016, from 2015. 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.

The operating bottom line for Port Operations was Net Income of \$1,233 in 2016. This was lower than 2015 by \$289, as Port Property revenues and Storage revenues were lower in 2016, offset by higher Terminal Handling, Ship Services and Filming revenues. Total Port tonnage was 1,874,035<sup>1</sup> in 2016 versus 1,650,990<sup>1</sup> in 2015, an increase of 13.5%. This was primarily due to higher cement, salt, aggregate and sugar tonnages coming into Port, offset by lower stone cargos.

The Outer Harbour Marina continued its steady performance, with an operating profit of \$1,232, an increase of \$14 from the operating profit of \$1,218 in 2015.

Property and Other accounted for an operating profit of \$936 in 2016, a decrease of \$260 versus 2015. This was mainly due to additional revenue, earned from the parking lot at 60 Harbour Street, used for construction staging operations in 2015.

Investment Income was \$172 in 2016 versus \$272 in 2015. Corporate Services expenses were up \$337 and the Charge on Gross Revenue increased by \$546. The increase in Corporate Services expenses related to higher Salaries, Wages and Benefits, Consulting expenses, Office and general expenses offset by lower Public Affairs and Legal expenses.

There was a Gain on the Interest Rate Swap of \$130. These items accounted for the remaining change in the overall bottom line. Net Income was \$6,684 in 2016 versus \$5,897 in 2015, an increase of \$787. Comprehensive Income increased from \$5,842 in 2015 to \$11,244 in 2016.

### 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 CST, including charges for cruise ships services, filming and event space. 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.

Port revenue was down in 2016 by \$97 versus 2015, as Property Revenue, Storage of Cargo and Dredging Revenue decreased, while Terminal Handling Fees, Cargo Dues, Ships Services and Filming revenues were higher. Port expenses increased in 2016 versus 2015 by \$192, primarily due to higher Salaries, Wages and Benefits, Maintenance and Repairs and Insurance expenses, offset by lower Operating Materials and Utilities, Public Affairs and Legal expenses.

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

Outer Harbour Marina (“OHM”)

*(In thousands of dollars)*

The occupancy rate for summer berthing remained at 85% in 2016 and stayed at 100% for winter outdoor and indoor storage. The annual turnover rate remained low in 2016 at approximately 8% 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 50-ton travellift for haul out and launch, and masting/demasting services.

Revenues at the Outer Harbour Marina were up \$295, as summer berthing and winter storage fees increased in 2016 versus 2015. The addition of a second heated indoor storage facility improved performance. A trend towards larger boats as well as rate increases continues to push revenues higher. Fuel Sales were also higher in 2016.

Expenses were up \$281 from 2015 to 2016, as Salaries, Wages and Benefits, Operating Materials and Utilities and Repairs, Maintenance and Repairs and Insurance costs were higher, offset by lower Public Affairs expenses.

#### Billy Bishop Toronto City Airport (“Airport”)

In 2016, operations at the Airport continued to grow under a managed growth strategy. The two main revenue sources at the Airport are the Airport Operating Fees charged to Scheduled Carriers based on slot allocation and usage and AIF, currently at \$20.00, collected from enplaning (departing) passengers. The AIF is funding the Airport’s ongoing capital expenditure program, including debt service on the existing Bank Loans and the Pedestrian Tunnel MSPs.

The increase in passenger volumes and Airport activity continued to drive Airport revenues in 2016 with revenue up to \$47,373 versus \$44,763 in 2015, an improvement of \$2,610. Also included in the AIF are revenues generated from the Pedestrian Tunnel Advertising features.

On the expense side, there was an increase of \$3,685 in 2016, with higher Salaries, Wages and Benefits, Operating Materials and Utilities, Maintenance and Repairs, Public Affairs, Security and Interest expenses. A full year of Tunnel operations resulted in several of these categories of expenses increasing in 2016 compared to 2015.

#### Property and Other

Revenues were lower in 2016 by \$133 compared to 2015, due to lower Parking revenues.

Expenses increased by \$127 in 2016 versus 2015, mainly due to higher Operating Materials and Utilities and Maintenance and Repair expenses.

#### Investments

Investment Income was down \$100 in 2016 versus 2015, as cash reserves decreased in 2016 and interest rates remained relatively flat.

*(In thousands of dollars)*

### 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, 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.

Expenses in Corporate Services increased in 2016 by \$337, compared to 2015. Higher Salaries Wages and Benefits, Consulting expenses, and Office and general expenses were partially offset by the lower cost of Public Affairs expenses and Legal expenses.

### Payments-in-Lieu of Taxes to the City of Toronto (Please see Note 8 in the 2016 Audited Financial Statements)

In 2015, the TPA and the City reached a Settlement on all non-airport PILT eligible properties. As a result, total expenses were higher in 2015, as amounts were also accrued and paid in 2015 for prior years.

The TPA and City settled PILTs for BBTCA 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 number three on the list, as per 2015 reports.

### Gain/ (Loss) on Interest Rate Swap

The TPA had been following hedge accounting rules on a “critical terms match” basis under GAAP. Under IFRS, the Swap was reevaluated and did not meet IAS 39 requirements in terms of the necessary documentation and testing/assessment in 2010 and 2011. The unamortized accumulated other comprehensive loss due to losses in derivatives previously designated as a cash flow hedge as at December 1, 2009 was \$1,087. This loss is being amortized over the remaining term of the Swap until maturity on January 4, 2022. As of January 1, 2012, the ineffective portion of the gains and losses on the Swap were recognized in the Statement of Operations. The total impact of the gains and losses on derivatives including amortization in 2016 was (Gain 2016 - \$130) (Loss 2015 - \$156). The hedge for the Swap was redesignated effective January 1, 2012 and now continues to be effective.

### **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, 2015 of \$106,186, which included an Accumulated Other Comprehensive gain of \$4,577. The ending balance as at December 31, 2015 included the Net Income for the year of \$5,897, less the Unamortized Loss and Past Service Costs – IAS19R of \$106, plus Amortization of the Accumulated Loss on Derivative Interest of \$91, plus the gain on Interest Rate Swap – Effective Portion of \$51, for a closing Equity balance as at December 31, 2015 of \$112,119. The Amortization of \$91 is included in the Loss on Interest Rate Swap in the Statement of Operations and Comprehensive Income.

The ending balance as at December 31, 2016 included the Net Income for the year of \$6,684, plus a Pension Gain as a result of Remeasurement of the liability - IAS19R of \$4,399, plus Amortization of

*(In thousands of dollars)*

the Accumulated Loss on Derivative Interest of \$91, plus the Gain on Interest Rate Swap – Effective Portion of \$161 for a closing Equity balance as at December 31, 2016 of \$123,454. 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 Billy Bishop Toronto City Airport. Cash and Cash Equivalents and Short-term Investments have gone from \$15,530 at the end of 2015 to \$11,872 as at December 31, 2016, a decrease of \$3,658. Cash and Cash Equivalents and Short-term Investments that are AIF Restricted have gone from \$5,467 at the end of 2015 to \$8,707 as at December 31, 2016, an increase of \$3,240. An analysis of the Statements of Cash Flows is included below.

Accounts Receivable increased from \$5,123 at the end of 2015 to \$6,497 at the end of 2016. The details of the increase are found on Page 20, Note 3 to the Audited Financial Statements. The increase in receivables of \$1,374 was mainly due to an advance payment of AIF near the end of 2015.

Comparing December 31, 2016 to December 31, 2015, Inventories were higher by \$10 and Prepaid Expenses increased by \$228.

The details on Capital Assets are found on Page 23 and 24, Note 5. Capital Assets increased by \$26,635 in 2016 and on a Net Book Value basis the increase was \$19,530, when amortization and outside funding for capital projects are taken into account.

The details of the gross increase are as follows:

Port Operations	\$3,557
Outer Harbour Marina	\$233
Billy Bishop Toronto City Airport	\$22,115
Property & Other	<u>\$730</u>
Total	<u>\$26,635</u>

Higher Capital Expenditures in 2016 as compared to 2015, included the BBTCA airfield rehabilitation project and the purchase of an additional runway sweeper, a new tug boat for harbour operations and a roof replacement on a building at the Marine Terminals.

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 increased by \$1,014, from 2015 to 2016. This is mainly due to an increase in Trade Payables as a result of higher activities at the end of 2016 as compared to 2015.

The Fair Value of the Interest Rate Swap represents the closing balance following the decrease in the loss in value in 2016 of \$381.



*(In thousands of dollars)*

The current portion of the Bank Loans is the principal amount to be repaid in the next fiscal year, in this case 2017.

Unearned Revenue increased by \$37 in 2016 versus 2015. 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 on Page 29, Note 7 (a).

The Pedestrian Tunnel Concession Liability is described on Page 33, Note 14.

Employee Benefit Liabilities represents the liability recognized for Port Authority Benefit Plans and are described on Pages 24 to 28, Note 6.

Equity represents the difference between Assets and Liabilities. Equity increased in 2016 by \$11,335, as detailed on the Statements of Changes in Equity on Page 4.

The financial liquidity of the Port Authority remains strong, with a Current Ratio (Current Assets divided by Current Liabilities) of 2.04 as at December 31, 2016. This is a slight decline from the Current Ratio as at December 31, 2015 of 2.20.

The financial performance ratio was slightly higher in 2016, with a Profit Margin (Net Income divided by Gross Revenue) of 11.2% in 2016 compared to 10.3% in 2015.

### **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 or deducts back 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 2016, this amount resulted in a decrease in cash of \$560. This was mainly due to the increase in Accounts Receivable of \$1,374, the increase in Inventories of \$10 and the increase in Prepaid Expenses of \$228, offset by the increase in Accounts Payable of \$1,014 and the increase in Unearned Revenue of \$37.

Investing Activities and Financing Activities are then listed. Investing Activities include an increase in Short-term Investments and the Acquisition of Capital Assets listed above. Financing Activities include items related to the Pedestrian Tunnel and the Bank Loans.

The end result is the Cash and Cash Equivalents position decreased in 2016 by a total of \$6,658 from \$13,530 to \$6,872. This balance does not include Short-term Investment of \$5,000 and Cash and Cash Equivalents – AIF Restricted \$8,707, which increased by \$3,240 in 2016 from \$5,467 in 2015. As part of the Project Agreement, as at December 31, 2016, the Port Authority had a Prepaid Threshold Tunnel Deposit of \$8,145. The TPA continues to invest its cash resources in infrastructure improvements that benefit all of its business operations.