

## MANAGEMENT DISCUSSION AND ANALYSIS

### GREATER VICTORIA HARBOUR AUTHORITY'S OPERATING RESULTS FOR THE YEAR ENDING MARCH 31, 2011

The following Management Discussion and Analysis (MD&A) reports on GVHA's activities and financial statements for the period ending March 31, 2011. This information has been prepared by management and should be considered in conjunction with the audited financial statements.

#### INTRODUCTION

In 2002, four public port facilities in Victoria Harbour were divested from Transport Canada. Greater Victoria Harbour Authority (GVHA) was formed as a not-for-profit corporation to manage the following properties:

**Ogden Point Deep Sea Terminal** – 30 acres of land and seabed, including four berths, breakwater, warehouse, staging area, helicopter terminal and other commercial buildings.

**Fisherman's Wharf** – moorage for commercial fishing vessels, recreational and float home vessels, fishery off-loading facilities, fuel dock and other commercial activities.

**Ship Point & Lower Causeway Marina** – tourist recreational area and guest moorage facilities, home to many of Victoria's marine and community events, eco-tourism activities and other commercial activities.

**Wharf Street & Johnson Street Marinas** – commercial, annual and guest moorage for pleasure vessels and float planes.

In addition GVHA manages a small pocket marina in the upper harbour leased from Transport Canada since 2007.

#### OVERVIEW

GVHA operates its port facilities within three primary business lines:

**Shipping** – Cruise and cruise support revenue, berthage/wharfage at Ogden Point

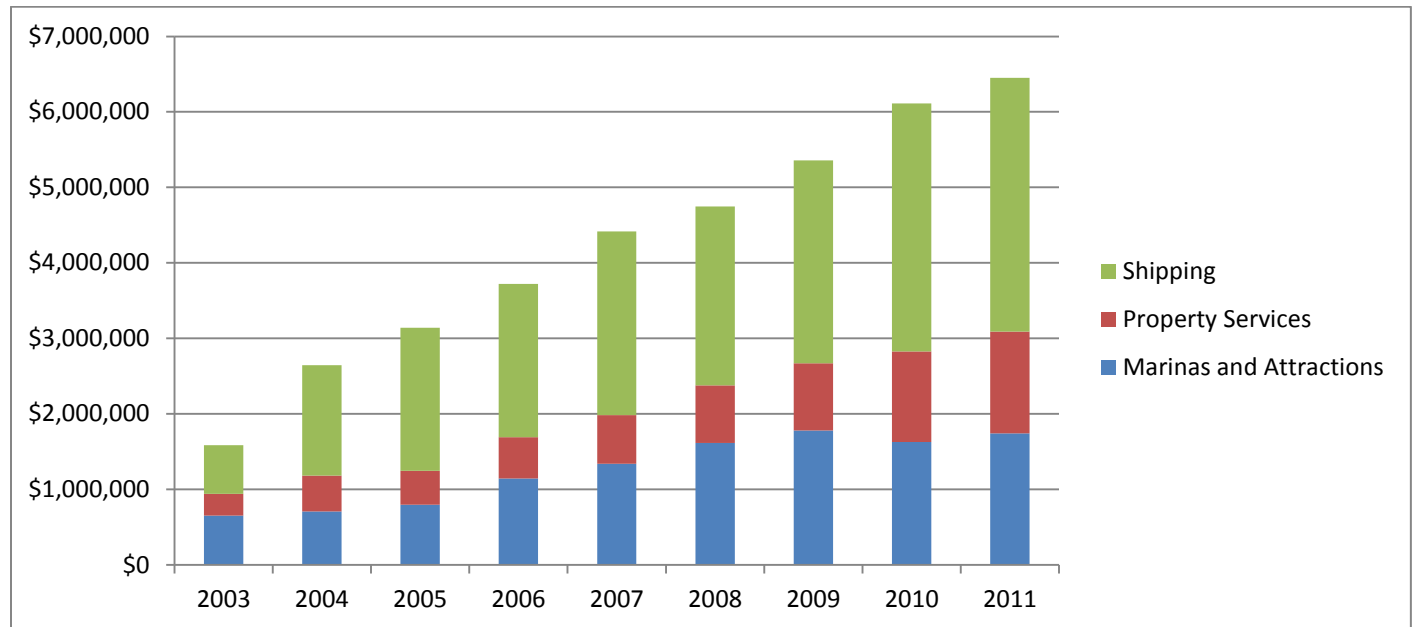
**Marinas and attractions** – Pleasure vessel/float home moorage, commercial fishing vessel and other commercial vessel moorage, Harbour Festival Program and event revenue

**Property services** – Commercial leasing and licensing activities

## Operating Performance Overview

Revenue for the year exceeded budget by 5.5% or \$343,320 and totalled \$6,594,833 against a budget of \$6,251,513.

### GROSS REVENUES BY BUSINESS LINE SINCE FISCAL YEAR ENDING MARCH 31, 2003



Total expenses for the year including amortization of capital assets were unfavourable to budget by 4.0% or \$255,060 and totalled \$6,629,597 against a budget of \$6,374,537. The unfavourable budget variance was largely attributable to a more comprehensive repairs and maintenance program than originally planned for the year. Additional unbudgeted expenses were required to fund a CEO search and transition.

The annual operating budget for GVHA's April 1, 2010 to March 31, 2011 fiscal year called for a deficiency of revenues over expenses of \$123,024. Actual net results achieved for the year were ahead of budget with a deficit of \$34,764.

Total cash re-invested in capital assets during the year amounted to \$1,806,090 while total capital assets under construction at year-end totalled \$4,450,909. These investments reflect monies spent on the Ogden Point dredging and dolphin project, ongoing work around the development of a comprehensive Master Plan for Ogden Point and continuation towards obtaining environmental Certificates of Compliance from the Ministry of Environment for the Ogden Point and Fisherman's Wharf facilities.

## FINANCIAL POSITION SUMMARY

The Statement of Net Assets presents the financial position of GVHA at the end of the fiscal year. Net assets is the difference between total assets and total liabilities and is an indicator of the current fiscal health and GVHA's financial position over time. A summarized comparison of assets, liabilities and net assets is below.

	<b>2011</b>	<b>2010</b>
<b>ASSETS</b>		
Current Assets, Investments	10,698,952	11,465,594
Capital Assets	<u>57,415,317</u>	<u>55,134,091</u>
	<b>68,114,269</b>	<b>66,599,685</b>
<b>LIABILITIES</b>		
Current Liabilities	1,280,478	997,918
Deferred Contributions	<u>27,899,758</u>	<u>27,865,337</u>
	<b>29,180,236</b>	<b>28,863,255</b>
<b>NET ASSETS</b>		
Invested in capital assets	30,393,942	28,225,083
Restricted assets	1,729,889	1,405,938
Unrestricted assets	<u>6,810,202</u>	<u>8,105,409</u>
	<b>38,934,033</b>	<b>37,736,430</b>

GVHA's assets exceeded liabilities by \$38.9 Million, a 3.2% increase over total net assets for 2010. The largest portion of net assets for GVHA is investment in capital assets. These assets are used to provide services to tenants, customers and the general public. This investment has been generated through the divestiture from Transport Canada, GVHA's ongoing operation of the port facilities and specific capital funding provided by the federal and provincial governments. GVHA carries no debt.

Restricted assets represent an externally managed investment fund that was approved by the Board for the self-insurance of the breakwater, piers, parking lot and lamp stand towers at Ogden Point. GVHA's strategy is to build the self-insurance fund to \$5 million through regular cash transfers to the fund equal to the estimated annual premium that would otherwise be paid to an insurance company.

GVHA's unrestricted net assets are available to meet on-going obligations and to fund the replacement of assets and future growth.

## **REVENUES, EXPENSES, AND CAPITAL ASSETS**

A summary of the statement of revenues and expenses is below.

	<b>Budget 2011</b>	<b>Actual 2011</b>	<b>Actual 2010</b>
Operating revenues	6,251,513	6,594,833	6,200,996
Operating expenses	<u>4,737,064</u>	<u>5,007,733</u>	<u>3,954,209</u>
Excess of operating revenues over expenses before amortization	1,514,449	1,587,100	2,246,787
Amortization of capital assets	<u>1,637,473</u>	<u>1,621,864</u>	<u>1,538,044</u>
<b>Excess (deficiency) of operating revenues over expenses</b>	<b>( 123,024)</b>	<b>( 34,764)</b>	<b>708,743</b>
Transport Canada contributions	1,060,552	1,030,504	1,035,309
Investment income	306,200	234,669	393,525
Loss on sale of capital asset		(32,805)	
Excess of total revenues over total expenses	1,243,728	1,197,604	2,137,577

Operating revenues were favourable to budget by 5.5% with Shipping and Property Services line of business contributing positively to the decrease in the Marinas and Attractions line of business compared to budget. The decrease in Marinas and Attractions to budget was a result of the temporary impact of the Fisherman's Wharf reconfiguration and the decline in pocket cruise ship and summer transient moorage.

**Shipping** – Between April and October 2010 GVHA received 219 cruise visits bringing 441,330 passengers to Victoria – the key metric of total passenger count was favourable to the 2010 budget of 223 cruise visits and 413,000 passengers. 2009 results include two ships temporarily repositioned from the Mexico market due to the H1N1 epidemic. The repositioned ships were the largest ever to berth in Victoria and contributed 14 cruise visits in 2009. The average passenger capacity of ships visiting Victoria was 103.5% of registered cruise ship capacity. Cruise is a growth area for GVHA and represents a significant proportion of total revenue from a concentration risk perspective. A summary of cruise visits to Victoria since 2000 is set out below.

<b>PROPERTY OWNERSHIP</b>	<b>YEAR</b>	<b># CRUISE VISITS</b>	<b># OF PASSENGERS</b>	<b>AVERAGE # PASSENGERS/CALL</b>
Transport Canada	2000	45	53,276	1,184
	2001	77	118,145	1,534
Greater Victoria Harbour Authority	2002	110	160,902	1,463
	2003	118	185,978	1,576
	2004	139	262,462	1,888
	2005	142	294,596	2,075
	2006	182	352,468	1,937
	2007	163	343,732	2,109

	2008	201	398,711	1,984
	2009	220	443,630	2,017
	2010	219	441,330	2,015

**Marinas and attractions** – Revenues increased 7.0% over previous year but short of budget by less than 1%. The annual increase represents GVHA’s commitment to move to competitive market rates and to the growth in the Harbour Festival Program. This program showcases the artists, buskers, jugglers and performers on the Lower Causeway and features a night market on Ship Point.

**Property services** – Revenues increased 13.9% over previous year and ahead of budget by 5.0%. This increase also demonstrates GVHA’s commitment to market rates along with the growth in the fish offloading industry at Fisherman’s Wharf.

#### *Operating Expenses*

During the year, GVHA relocated its corporate offices from leased premises to owned premises at Ogden Point. A savings in lease expense for the year funded the relocation of the corporate office. Summarized below is a breakdown of General Operating Expenses (*direct facility expenses*), and Administrative Expenses (*general corporate expenses*).

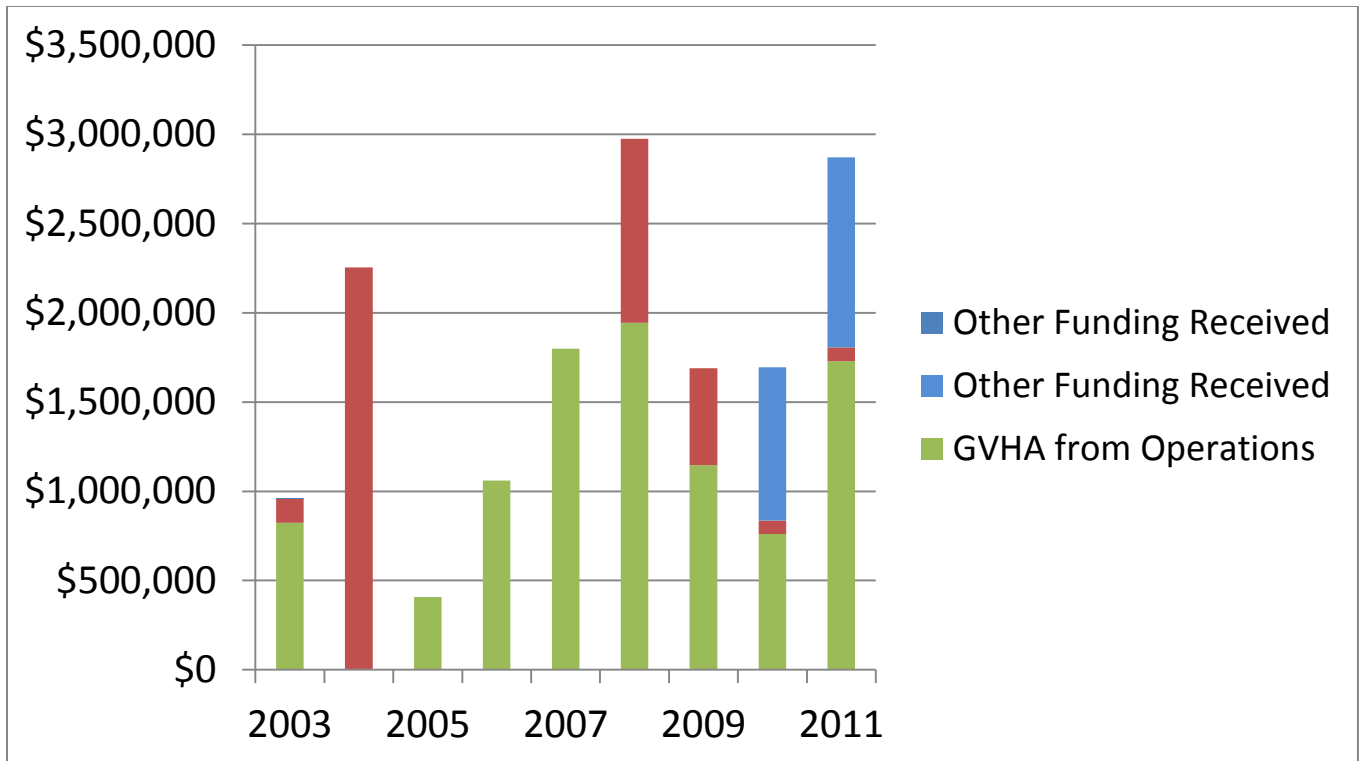
<b>OPERATING EXPENSES EXPENSE CATEGORY</b>	<b>BUDGET 2011</b>	<b>ACTUAL 2011</b>	<b>Variance Actual to Budget</b>	<b>Variance Actual to Budget</b>	<b>ACTUAL 2010</b>
In-Kind Contributions ( <i>revenue producing facility temporarily used in a sponsored community event</i> )	115,905	100,086	(15,819)	(13.6%)	105,938
Consulting & Legal ( <i>including CEO search and transition</i> )	196,255	395,052	(162,797)	(82.9%)	123,813
Marketing/Community Relations/Branding	119,031	83,083	35,948	30.2%	83,660
Harbour Festival Program	88,200	98,645	(10,445)	(11.8)	90,492
First Nations – Land & Sea Mural	150,000	180,254	(30,254)	(20.2%)	179,035
Hydro/Water/Waste Removal	215,420	217,526	(2,106)	(0.97%)	190,136
Operations Labour ( <i>does not include maintenance labour</i> )	358,508	328,099	30,409	8.5%	268,887
HST Liability	0	33,709	(33,709)	-	0
Other	106,248	113,837	(7,589)	(7.1%)	320,000
<b>TOTAL</b>	<b>1,349,567</b>	<b>1,514,291</b>	<b>(164,724)</b>	<b>(12.2%)</b>	<b>1,361,961</b>

<b>ADMINISTRATIVE EXPENSE CATEGORY</b>	<b>BUDGET 2011</b>	<b>ACTUAL 2011</b>	<b>Variance Actual to Budget</b>	<b>Variance Actual to Budget</b>	<b>ACTUAL 2010</b>
Office Lease & Relocation	122,350	123,099	(749)	(0.6%)	127,786
Contributions & Sponsorship	32,700	66,077	(33,377)	(102%)	14,681
Board Governance	149,976	180,246	(30,270)	(20.1%)	116,135
Corporate Labour/Training & Development/Benefits	889,845	901,957	(12,112)	(1.3%)	696,622
Travel and Trade Show Booths	134,050	55,858	78,192	58.3%	13,441
Office Equipment and Materials	19,195	25,699	(6,504)	(33.8%)	21,293
Consulting – Admin	156,000	183,976	(27,976)	(17.9%)	64,501
Computer supplies & support	23,640	44,493	(20,853)	(88.2%)	8,520
Other	101,050	97,408	3,642	3.6%	107,968
<b>TOTAL</b>	<b>1,626,806</b>	<b>1,678,813</b>	<b>(52,007)</b>	<b>(3.1%)</b>	<b>1,170,947</b>

## **CAPITAL ASSETS**

GVHA's capital assets as at March 31, 2011 amounted to \$57,415,317 (net of accumulated amortization). The investment in capital assets includes land, the Ogden Point breakwater and piers, all wharves, docks, buildings, yard improvements, furniture, equipment, and capital assets under construction. Additions to capital assets have been funded by \$5 million of restricted transition funds provided by Transport Canada in the 2002 divestiture), GVHA's operations and Federal/Provincial stimulus programs.

## **ANNUAL INVESTMENT IN CAPITAL ASSETS**



In the fiscal year ending March 31, 2011, \$1.7 million was invested in the design and construction of a new mooring dolphin at Ogden Point. This project included dredging the north side of pier B thereby extending the length of safe berthage provided at this pier. GVHA is well positioned for attracting an increasing number of larger cruise ships visiting the Alaska market. A total of \$218,000 was spent in the continuation of the development of the Master Plan for GVHA’s Ogden Point lands. The Master Plan is intended to guide the property rezoning to facilitate potential development while maintaining flexibility for the marine opportunities.

Currently GVHA is unable to provide long term leases that can be registered on title by a tenant. In order to provide registerable leases, GVHA must obtain environmental Certificates of Compliance from the Provincial Ministry of Environment. This process has been moving forward since 2004. In 2010, \$124,000 was spent on additional sampling and remediation plans for Ogden Point and Fisherman’s Wharf. GVHA expects to receive Certificates of Compliance for these properties in 2011.

Other funds were invested to complete the Fisherman’s Wharf reconfiguration project. This project has used modern, environmentally friendly materials and has resulted in increased moorage capacity.

**RISK MANAGEMENT**

The risk philosophy below is a summary representing the shared beliefs and attitudes of how GVHA considers risk in its business. This includes strategic planning, day-to-day decisions and the operation of GVHA’s facilities. This philosophy is reviewed and approved annually.

**GVHA’s RISK PHILOSOPHY**

The board believes that an understanding of enterprise-wide risk and the proactive management of risk

are integral to moving GVHA forward in achieving the vision of “...a harbour where people live, learn, work and play; a spectacular gateway into Victoria’s past and into its future, monumental in look and feel, linking communities and all people together.”

The board’s risk philosophy reflects the unique nature and inherent risks of GVHA’s marine-related businesses, the public’s expectations of access to and the use of GVHA’s physical assets, and GVHA’s capacity to effectively manage risk.

The development of strategy and the implementation of strategy are considered within the context of an enterprise-wide risk management program. This includes:

- **Awareness:** All material risks affecting GVHA’s operations are identified, monitored and understood throughout the organization.
- **Capacity:** Maximum risk limits are established by the board that are commensurate with GVHA’s financial capital, current and forecasted earnings, and the experience and ability of GVHA’s management team.
- **Risk appetite:** Operational risk limits and mitigation alternatives are established by management in alignment with the strategic plan and are approved by the board.
- **Accountability:** Management is held accountable by the board for an effective enterprise-wide risk management program.

## **RISK GOVERNANCE**

The governance model of GVHA includes a reasonable level of management and oversight functions of both risks and controls. As risk is a shared responsibility of Board, management and staff GVHA’s main oversight functions are listed below.

*Board of Directors:* engages with the Senior Leadership Team on GVHA’s strategy, approves the strategic plan, and provides general oversight and risk management oversight through its Audit and Finance Committee.

*Audit and Finance Committee:* monitors all aspects of the financial management of GVHA’s activities, including its internal and external financial reporting, investment activities, enterprise-wide risks and risk management strategies, internal controls, and financial planning and budgeting.

*Human Resource Committee* – establishes human resource policies to ensure continuity and develops programs to attract, retain and motivate management to enhance and sustain GVHA

*Governance and Nominating Committee* – oversees governance processes at GVHA, including the nominating and governance activities of GVHA’s Board of Directors.

*First Nations Economic Development Committee* – responsible for advancing GVHA’s commitment to develop economic development opportunities and raise awareness of the Esquimalt and Songhees Nations.

*Senior Leadership Team:* develops GVHA's strategic direction for approval by the Board and executes the annual operating plan within the enterprise risk management framework.

*Operations:* provides front-line operations with a view to mitigating risks throughout GVHA's day-to-day operations.

The following risk categories have been identified that are most likely to affect GVHA operations; Capital Assets, External Market Conditions, Corporate Governance, and Operational Risks:

### ***Capital Assets***

This risk reflects the way GVHA manages its assets. It includes asset valuation, asset utilization and asset maintenance, and mitigating potential asset obsolescence. GVHA developed a life cycle plan in 2009 and is currently working to determine the best approach in reviewing the present condition of all assets. Currently the facilities are under-utilized based on the water lot area. This poses the risks of not meeting evolving customer needs and failing to generating sufficient revenue to maintain, develop and enhance the assets. The construction of the mooring dolphin was undertaken to mitigate asset obsolescence as the length of the original piers could not safely accommodate many of the modern sized cruise ships. The market indicates even larger ships may be destined for the Alaska marketplace.

### ***External Market Conditions***

GVHA must respond to market conditions and stay apprised of evolving issues and changes affecting the marketplace. Current external market risks affecting GVHA include:

- the strong Canadian dollar and the continued weakening of the US economy
- the rise in fuel costs affecting the cruise industry and recreational boaters
- regional land use issues, including urbanization pressures on harbour lands
- environmental requirements.

### ***Corporate Governance***

This risk comprises Board Governance, Executive Governance and First Nations engagement. This risk is being managed as follows:

- The Board of Directors completed a governance review in early 2011 and is developing action plans to further improve GVHA's governance and stakeholder engagement.
- A CEO transition workplan and related metrics have been established by the Human Resources Committee.
- A succession plan supported by effective training and development plans for each key position is being established to develop staff capacity that will meet the requirements for achieving GVHA's strategic objectives.

### ***Operational Risk***

This risk is part of the day-to-day operations and can impact efficiency, reputation and financial performance. This risk reflects any loss or missed opportunity that prevents GVHA from meeting its strategic objectives and includes human resources, cash flow management, information management systems, disaster and business interruption, and stakeholder relations. In 2010 GVHA conducted a reputational survey and the results primarily indicated that most stakeholders did not fully understand GVHA and its role within the harbour. The Management Discussion and Analysis is an effort to present the financial reporting to our stakeholders in a more comprehensive manner. For 2011 GVHA will continue to enhance its communication strategy to build awareness of GVHA's role in the harbour and the importance of the harbour as an economic driver of the region.