

The following Management Discussion and Analysis (MD&A) addresses Greater Victoria Harbour Authority's (GVHA) activities and financial performance for the fiscal year ended March 31, 2018. The information contained in this MD&A has been prepared by management and should be read in conjunction with the audited financial statements.

### Contents

WHO WE ARE & WHAT WE DO .....	2
About GVHA .....	2
Strategic Goals .....	4
Business Plan Initiatives .....	6
Enterprise Risk Management.....	7
FY 2017/18 FINANCIAL RESULTS.....	8
Statement of Operations .....	8
Statement of Financial Position .....	9
FINANCIAL OUTLOOK & PRIORITIES.....	12
Business Plan.....	12
Property Plans.....	12
Capital Assets .....	13

## WHO WE ARE & WHAT WE DO

### About GVHA

Greater Victoria Harbour Authority (GVHA) was created as a not for profit society to assume responsibility for various Harbour properties divested from the Federal Government to local control in 2002. The Harbour lies in the Traditional Territory of the Lekwungen People of the Esquimalt Nation and the Songhees Nation.

GVHA is accountable to its 8 Member Agencies: Esquimalt Nation, Songhees Nation, City of Victoria, Township of Esquimalt, Capital Regional District, Greater Victoria Chamber of Commerce, Tourism Victoria and Victoria Esquimalt Harbour Society.

GVHA's customers include cruise lines, shipping companies, commercial vessels, recreational yachts and boats, live-aboards, float homes and commercial tenants. GVHA has fee simple ownership in three main locations: Ogden Point, Fisherman's Wharf and Inner Harbour, in addition to a leaseholder interest with the Steamship Terminal:

#### Ogden Point Terminal

A **deep-water terminal** focusing on both cruise and working harbour uses, the nearly nine hectares of land and seabed includes four berths, warehouse, staging area, helicopter terminal, and commercial buildings for support services; the **breakwater** provides both essential protection for the terminal but also a public amenity for the locals and tourists to enjoy

#### Fisherman's Wharf

A **premier attraction** in Victoria of four and a half hectares of land and seabed, providing moorage for pleasure vessels and commercial fishing vessels, fish off-loading facilities, fuel dock, float home community, and other commercial and recreational activities, including **Raymur Point**, a pocket marina east of the facility, containing the Canada Customs dock

#### Inner Harbour

The **Ship Point pier and Lower Causeway** provide Victorian's and tourists an unprecedented recreational area and moorage facility, public pathway around the Harbour, host to various marine and community events, eco-tourism activities, and commercial activities; the **Wharf Street and Johnson Street Marinas** accommodate commercial operators and vessels, annual and guest moorage for pleasure vessels; and float planes housed at the **Hyack terminal**

#### Steamship Terminal

A four-story **historic Victoria landmark building** on the Inner Harbour which has been restored to a vibrant commercial, and cultural hub with a focus on public access, along with a float and water lot for customer use

## Vision

We envision:

- a working Harbour where people **live, learn, work, and play**; a spectacular gateway into Victoria's past and into its future, with a vibrant look and feel, linking communities and all people together.
- a GVHA organization that is recognized by the community as an **effective marine asset manager**, and as a trusted advocate and partner, working for the common good of the Harbour and the Region.

## Mission

In fulfilling our Constitution, we perform three distinct yet complementary roles:

- **Owners and managers** of the properties entrusted to us through divestiture or under lease;
- **Advocates** for best water and marine-related use and development of the whole Harbour and its assets, regardless of ownership, in accordance with our guiding principles; and
- **Partners or collaborators** with others in implementing Harbour initiatives that drive economic, social and environmental benefits for the Region.

## Our Shared Values

These shared values guide our interactions with our employees and contractors, member agencies, stakeholders and customers.

Teamwork	Working together to achieve common goals through a shared vision.
Leadership	Leading by example, being proactive in tackling challenges, and listening and providing feedback.
Integrity	Upholding GVHA's and our personal principles, and being genuine and consistent in our interactions with others.
Accountability	Taking responsibility for our behaviors, actions and decisions.
Positive Attitude	Committing to being optimistic and having fun at work

## Guiding Principles

GVHA's actions and decisions will be guided by the following principles:

- **First Nations Relationship** - We commit to working in partnership with the Esquimalt Nation and the Songhees Nation as they pursue their cultural and economic aspirations in the Harbour.
- **Triple Bottom Line** - We commit to generating broad economic and social benefit from the use of our properties, while continuously reducing adverse social and environmental impacts in local neighbourhoods and to our land, air and water.
- **Financial Self-Sustainability** – We commit to structuring and managing GVHA in a financially prudent manner, and to ensuring the long-term sustainability of the organization and its assets without recourse to local subsidies.
- **Working Harbour** - We commit to promoting the Harbour as a working Harbour, seeking out opportunities to help advance industrial, commercial and tourism related enterprises – “where commerce requiring the connection between the land and water takes place”
- **Accountability** - We commit to act in the public interest of the Harbour on behalf of GVHA's Member Agencies, their stakeholders and the people of the region, and to be held publicly accountable for our activities and results.

## Strategic Goals

In 2014/15, GVHA completed a 10-year Strategic planning process that aspired to achieve the following measurable outcomes:

### **Economic, Social and Environmental Benefit for the Region**

GVHA follows a triple bottom line approach to measuring economic, social and environmental impacts to the region, including our local First Nations. At GVHA we are a community-based organization that strives to support a thriving and vibrant community; strives to protect and enhance the health of the natural environment that is within our control for the benefit of present and future generations; and commits to working with all harbour stakeholders to achieve the optimum outcome in the public interest, by generating net benefit for the Esquimalt Nation, the Songhees Nation and for all residents living in and operating businesses in the Capital Region.

### **Financial Self-Sufficiency & Responsible Stewardship of GVHA Properties**

At GVHA we continuously reinvest in our assets to improve the experience that our customers and the public have at each of our facilities. Our asset lifecycle plan is critical to ensuring long-term sustainability of our operations, and informs our long-term investment strategy to ensure our financial capacity aligns with long-term asset maintenance and replacement needs.

### **A Trusted Advocate for the Working Harbour**

GVHA supports and facilitates stakeholder collaboration to develop and implement a shared vision for the future of the working harbour. We recognize and respect that the harbour lies in the traditional territory of the Lekwungen Peoples of the Esquimalt and Songhees Nations. We also recognize and respect that GVHA lands and waters are adjacent to several Victoria neighborhoods and as such, GVHA activities must align with the vision and regulatory policies and procedures of the City of Victoria.

The City of Victoria and the Province of BC both recognize the importance of developing a comprehensive harbour plan. As such, GVHA's priority to develop a master plan for the inner harbour facilities will require extensive collaboration with all stakeholders to ensure continued protection/enhancement of the working harbour. We realize that demonstrating the value and relevance of GVHA's role within the harbour is required to increase stakeholder engagement and support. A robust and meaningful consultation and engagement strategy is essential to GVHA's success.

### **Effective Governance and Accountability**

We convene regular meetings with GVHA member agencies to present plans and reports, and to engage our member agencies in strategic discussions about issues and opportunities. Our board comprises directors with a collective range of skills, expertise and experience. Directors are selected and nominated to competently provide direction and oversight of GVHA's activities. GVHA keeps the public consistently informed around GVHA operations and initiatives, and we manage a transparent and consultative planning process.

## Business Plan Initiatives

The table below outlines GVHA’s key business plan initiatives for 2017-18 that support the realization of strategic goals. To realize our long-term goals, particularly a triple bottom line benefit to the Region and financial sustainability, our focus has been on laying the groundwork for future growth, mitigating losses currently experienced at our Inner Harbour properties and implementing cost control measures within the organization.

Strategic Goal	Business Plan Initiatives
<b>Economic, Social and Environmental Benefit for the Region</b>	<ul style="list-style-type: none"> <li>• Monitor trends in environmental issues and initiatives to inform GVHA’s environmental management plan, including air quality, noise and emissions</li> <li>• Reduce environmental impacts on GVHA facilities, including actively improving Clean Marine BC and Green Marine ratings</li> <li>• Provide in-kind sponsorships for community events</li> <li>• Position Ogden Point as a future home port (by 2020)</li> <li>• Implement Ground Transportation Strategy</li> <li>• Progress the Ogden Point master plan</li> <li>• Implement Fisherman’s Wharf rezoning and commercial mix plan</li> </ul>
<b>Financial Self-Sufficiency &amp; Responsible Stewardship of GVHA Properties</b>	<ul style="list-style-type: none"> <li>• Increase revenues and control expenses, resulting in increased surpluses to fund operating and capital maintenance of existing assets</li> <li>• Improve revenue growth and diversification to reduce dependency on cruise ships; focus on property and commercial development, plus non-cruise marine revenue</li> <li>• Proactively manage maintenance program on all marine and upland assets</li> <li>• Update 25-year asset lifecycle plan</li> <li>• Emphasize a cultural shift to customer focus and customer value within the organization</li> <li>• Pursue government grant and private investment opportunities</li> <li>• Review financial risks and monitor reserves strategy</li> <li>• Utilize financial strategy and modeling for long-term planning</li> </ul>
<b>A Trusted Advocate for the Working Harbour</b>	<ul style="list-style-type: none"> <li>• Collaborate with stakeholders in developing a comprehensive Inner Harbour plan</li> <li>• Encourage the development and realization of the David Foster Pathway</li> <li>• Enter into new discussions with the Esquimalt Nation and Songhees Nation, to clarify and confirm an effective and affordable role for GVHA in local First Nations economic opportunities and development</li> <li>• Host and attend public open houses</li> <li>• Conduct stakeholder engagement survey every three years</li> <li>• Meet regularly with harbour stakeholder groups</li> </ul>
<b>Effective Governance and Accountability</b>	<ul style="list-style-type: none"> <li>• Develop and implement enhanced new director and member agency representative orientation process</li> <li>• Engage and include stakeholders throughout GVHA’s strategic planning process</li> <li>• Inform the public on GVHA operations and initiatives</li> <li>• Regular meetings with GVHA member agencies</li> <li>• Advise member agencies of governance issues requiring their deliberation</li> <li>• Maintain “Integrated” Enterprise Risk Management Program</li> </ul>

## Enterprise Risk Management

GVHA's Enterprise Risk Management (ERM) program, which is based on the internationally recognized principles from ISO 31000, applies to all staff and assists GVHA in achieving its strategic goals by bringing a systematic approach to identifying, analyzing, mitigating and reporting risks. GVHA's Board considers risk management to be fundamental to good management practice, and a significant aspect of the board's oversight activities. Effective management of risk provides an essential contribution toward the achievement of the GVHA's strategy, operational objectives and goals.

GVHA's risk philosophy represents the shared beliefs and attitudes of how GVHA identifies and manages risk in its business, including strategic planning, day-to-day decisions, and the operation of GVHA facilities. GVHA's active risks are documented in a corporate risk register and reviewed quarterly by management and Board Committees. As of March 31, 2018, management identified over 60 enterprise risks with mitigation strategies and performance measures for each risk. Each enterprise risk is linked to one or more of GVHA's strategic goals and falls under one or more of the following risk categories:

<b>Risk Category</b>	<b>Definition</b>
<b>Political</b>	Risk arising from government regulation or political priority/event
<b>Economic (external)</b>	Risk arising from changes in the economy
<b>Financial (internal)</b>	Risk threatening financial capacity or long-term sustainability of the organization
<b>Environment</b>	Risk arising from the actual or potential threat of adverse effects on living organisms and the environment by effluents, emissions, wastes, resource depletion, etc.
<b>Technical</b>	Risk arising from activities such as design and engineering, manufacturing, technological process and test procedures
<b>Social</b>	Risk arising from potential negative impacts to the community (including noise, traffic, air quality), labor conditions or human rights issues
<b>Public/reputation</b>	Risk arising from publicity or public perception,
<b>Operational</b>	Risk arising from potential issues with information systems, employee recruitment and retention, breaches in internal controls, fraud, etc.
<b>Legal</b>	Risk arising from the potential that unenforceable contracts, lawsuits or adverse judgments could disrupt or otherwise cause negative impact
<b>Safety</b>	Risk arising from potential injury to an individual, or damage to property

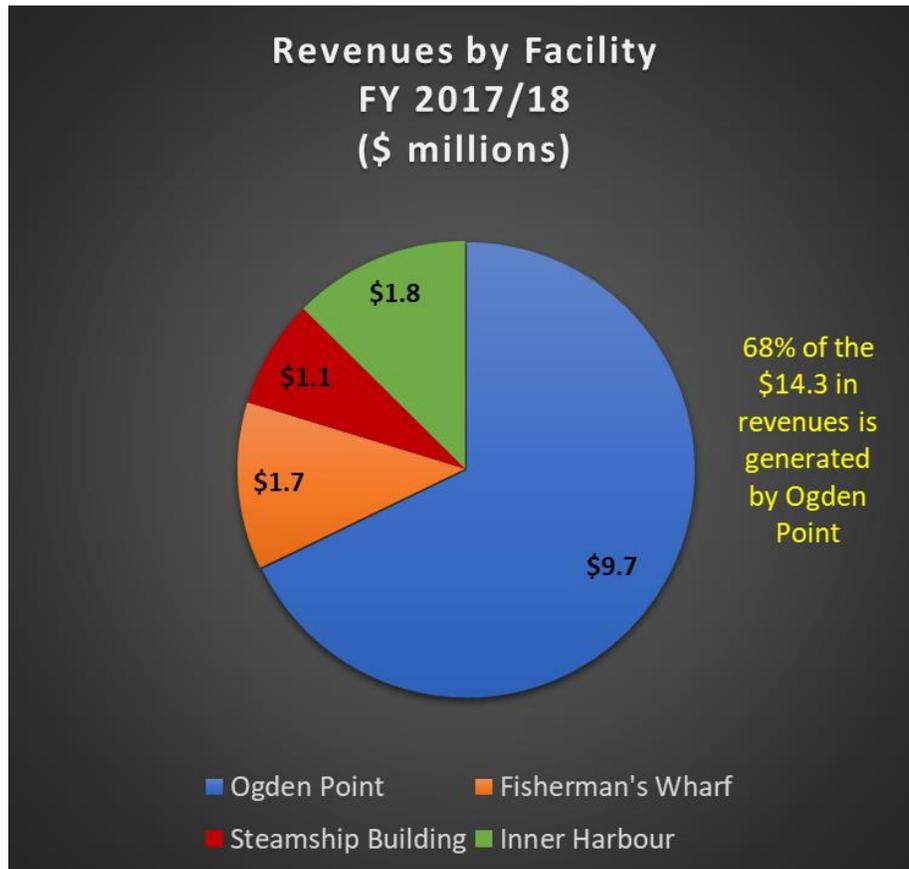
## FY 2017/18 FINANCIAL RESULTS

The following details should be read in conjunction with GVHA's annual Audit Financial Statements as of March 31, 2018.

### Statement of Operations

**Revenues:** shipping revenues, focused at Ogden Point and including cruise ships, yacht transshipment, cargo ship hold cleaning, research vessel berthing and stopovers, and cable ship home-porting, saw revenue growth of 14% over the prior year. Marina revenues softened 3% due to lower occupancy levels, while commercial properties increased 8% due to successful operating results for clients with concession-based agreements and new business initiatives transpire.

Gross revenue by facility for the year ended March 31, 2018:



**Cruise sustainability fee:** in 2010, GVHA, in consultation with cruise lines, implemented a cruise sustainability fee for all cruise lines calling at Ogden Point to support the essential ongoing investment in cruise infrastructure. In 2017-18, cruise lines contributed \$1.2 million towards cruise infrastructure, with a total of \$7.3 million contributed since inception.

**Other recovered costs and in-kind sponsorship:** saw a significant jump in 2017-18, largely due to higher cost recoveries at the Steamship Building.

**Expenses:** Operating costs increased by 8% over 2016-17, largely driven by general operating expenses and repair & maintenance costs that in turn have resulted in the higher recovered costs as noted above. GVHA, along with its tenants, remains among one of the highest individual payers of property taxes in the City of Victoria, contributing \$0.8 million.

**Deferred contributions:** represent amortized non-cash asset contributions received from Transport Canada at divestiture in 2002, in addition to other federal and provincial cash contributions related to specific capital projects and initiatives as awarded by governmental funding opportunities.

**Investment income:** represents gains and losses from GVHA's internally restricted reserve fund and Guaranteed Investment Certificates (GIC's).

## Statement of Financial Position

### Assets

All surplus cash generated from GVHA operations is reinvested in its facilities and advancing GVHA's mandate. Because of the substantial capital nature of marine assets and the condition of the assets divested to GVHA in 2002, GVHA must generate an operating surplus and build financial reserves to maintain, update and replace existing capital assets into the future.

In 2014, GVHA established a Restricted Capital Reserve Policy to provide guidance and methodology for restricting sufficient cash reserves in the event of a catastrophic event, material revenue loss and/or debt service coverage. Management and the Board update the fund target annually based on the fund methodology and at March 31, 2018 the fund balance of \$5.8 million was at 52% of the target required. The reserve fund is shown as an Investment on the Statement of Financial Position, as it is managed by a third-party firm, where all income is reinvested as earned.

GVHA uses its Capital assets to deliver services to its' customers and the public. Initial investment in these assets has been provided from Transport Canada's divestiture. The investment in capital assets includes harbour land (non-depreciable asset), wharves, docks,

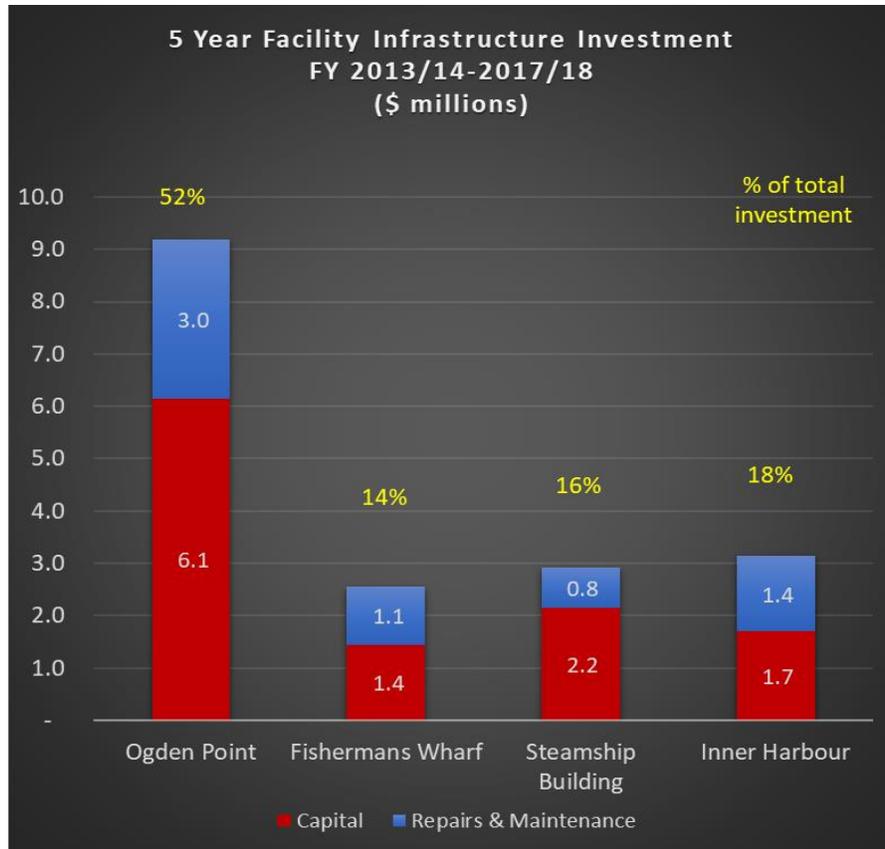
buildings, piers, Ogden Point breakwater, furniture, equipment, leasehold improvements, vehicles, and boats, and information technologies.

Capital assets as of March 31, 2018 were recorded at a net book value of \$57 million (net of accumulated amortization).

Capital investment for the year of \$2.2 million (\$1.8 million 2016-17) was comprised of:

- **Ogden Point** \$1.18 million: Master plan progress, Dolphin and bollard project kickoff, certificates of compliance related to environmental work, CBSA upgrades and signage enhancements
- **Fisherman's Wharf** \$0.57 million: electrical upgrades to Docks D&E, Transport Canada building window replacement and fuel tank and fuel line protection systems
- **Inner Harbour** \$0.3 million: dock upgrades, lower causeway Canada 150 improvements, and electrical upgrade, Ship Point engineering assessment
- **Steamship Building** \$0.12 million: terminal improvements to level 1

GVHA has invested \$17.8 million into its facilities during the last 5 years, as shown in the table below, which represents 30% of the total revenues earned during that timeframe. While Ogden Point has consumed 52% of the investment, or \$9.1 million, the Cruise sustainability fee received from the cruise lines has contributed \$4.4 million directly towards these costs.



**Liabilities**

Deferred contributions represent both the assets divested from Transport Canada in 2002 as well as any ongoing contributions from other sources, all of which are amortized over the life of the respective assets.

**Net Assets**

GVHA’s net assets are apportioned into three categories and represent the surplus funds reinvested since inception:

- Invested in capital assets, at \$36.6 million
- Internally restricted reserve fund relates to the funds allocated for specific use, both for the Restricted Reserve Fund and the Cruise Sustainability Fund, at \$6.4 million
- Unrestricted net assets are available to fund the replacement of assets, future growth, and to meet ongoing future obligations, at \$4.8 million

## FINANCIAL OUTLOOK & PRIORITIES

### Three Year Business Plan

FY 2017-18 was the second year of the 2016-2019 Business Plan. As management and staff work through the priorities going forward into 2018-19, they are also developing the 2020-2022 Business Plan which will be reviewed and approved by the Board prior to yearend 2018-19.

### Property Plans

#### Ogden Point

GVHA's objective is to ensure the long-term success and sustainability of cruise tourism in Victoria and the Pacific Northwest, in part through its strategic and measured investment in the Ogden Point deep sea terminal infrastructure. In doing so, GVHA aims to provide a port environment that meets the needs of cruise partners and the expectations of shared guests to ensure a safe, secure and enjoyable shore experience for all. Over the past 10 years, Ogden Point has experienced an average growth rate of 6% per year in its cruise operations. As interest in the Alaskan cruise industry continues to grow, GVHA, along with its tourism partners in Victoria, expects to benefit. Specific initiatives include:

- Promote Ogden Point as a potential economic development engine for the City of Victoria and the Region
- Preserve and expand cruise industry business and associated benefit for the region
- Implement initiatives to increase revenue
- Implement measures to mitigate adverse impact of Ogden Point operations on local residents and the environment
- Invest in sustaining maintenance and enhancement/upgrades to capital infrastructure

#### Fisherman's Wharf

In 2017, the introduction of liquor licensing and expanded common seating area was implemented at Fisherman's Wharf. GVHA will continue to implement the Fisherman's Wharf Plan (approved by the City in 2014) to preserve the current variety of activity at Fisherman's Wharf plus:

- Discuss solutions to enhance Fisherman's Wharf public amenities with the City of Victoria and other stakeholders
- Discuss land and water lot issues with the Federal Government
- Complete sustaining maintenance
- Plan for the development of the revitalization of the Huron Street Pier

#### Steamship Terminal

Full tenancy at the Steamship Terminal continues to be a focus for GVHA, with one pocket of space potentially available on the main level, pending the outcome of the second season test

operations by the Songhees Nation.

### Inner Harbour

GVHA's marinas remain close to 100% occupancy in the winter/shoulder season and during major event weekends; however, occupancy is inconsistent throughout the summer. GVHA will continue to:

- Develop a long-term moorage strategy to ensure that all direct costs relating to marinas and attractions are recovered and operational self-sufficiency of the marinas
- Commence Ship point and causeway assessments and upgrades
- Initiate development of a "master plan" for GVHA's Inner Harbour marinas and properties, in collaboration with the City of Victoria
- Determine optimal approach for the future of the Hyack Float and the Johnson Street docks
- Undertake sustaining maintenance projects

### Capital Assets

In the next 3 years, there are capital projects related to both revenue generating assets as well as public amenity assets requiring significant investment in order to maintain service levels and access. GVHA is developing funding strategies to ensure that we can meet these long-term capital requirements, as the capital investment is projected to reach 70% of gross revenues over the 3 years. The ability of GVHA to fund additional capital projects, including enhancements and upgrades at its facilities, will require positive business cases, provincial and federal governments grant funding and debt.

In the short term, GVHA's FY2018/19 capital budget anticipates spending in the following areas:

- **Ogden Point** \$10.7 million: Cruise terminal upgrades to be funded through cruisesustainability fund or other strategic partnerships, in addition to progressing the Master Plan for the site
- **Inner Harbour** \$2 million: Ship Point infrastructure upgrades
- **Fisherman's Wharf** \$0.7 million: an upland washroom facility contribution
- **Steamship** \$0.2 million: level 1 activation and servicing
- Other \$0.1 million: signage enhancements at all facilities

Over the upcoming 3-year budget cycle for GVHA, covering years 2018/19 – 2020/21, facility investment is anticipated to be \$31.7 million, which is a significant increase over prior years. GVHA will determine appropriate funding mechanisms to support this growth, as surplus cash from operations are not expected to be enough to cover the infrastructure costs.

Of those budgeted investments, \$25.8 million will be capital infrastructure related while \$5.9

million is attributed to ongoing repairs and maintenance. Capital project plans at this time are weighted heavily on the following three areas:

- Ogden Point cruise related upgrades related to a new mooring dolphin and site enhancement, that will be recovered from the Cruise Sustainability Fee (\$11.3 million)
- Ogden Point redevelopment progress and site infrastructure (\$8.2 million)
- Fisherman’s wharf site servicing upgrades (\$1 million)
- Public amenity enhancements for non-revenue generating assets: Ship Point (\$2 million) and the Breakwater (\$0.5 million) structural improvements; upland washrooms and Green waste management solutions at Fisherman’s Wharf (\$0.9 million)
- Remaining capital and maintenance funds cover smaller projects at all facilities

