

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, 2020. 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.....	8
FY 2019/20 FINANCIAL RESULTS.....	9
Statement of Operations .....	9
Statement of Financial Position .....	10
FINANCIAL OUTLOOK & PRIORITIES.....	12
Business Plan.....	12
Property Plans.....	13
Capital Assets .....	14

## 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 a boards, float homes and commercial tenants. GVHA has fee simple ownership in three main locations, Breakwater District, Fisherman's Wharf and Inner Harbour, in addition to a leaseholder interest with the Steamship Terminal.

#### Breakwater District 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. We are a community-based organization that strives to support a thriving and vibrant community and to protect and enhance the health of the natural environment. We commit 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 investment strategy to ensure our financial capacity aligns with 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**

GVHA convenes regular meetings with member agencies to engage in strategic discussions about issues and opportunities. Our Board comprises of Directors that are selected and nominated to competently provide direction and oversight of GVHA's activities. As such we strive to select and appoint directors with a collective range of skills, expertise and experience. GVHA keeps the public consistently informed around 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 2020-22 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.

Initiative Area	Business Plan Initiatives
<b>Port Operations</b>	<ul style="list-style-type: none"> <li>• Complete shore power feasibility and business case</li> <li>• Pursue environmental impact reduction strategies that will and could include shore power, voluntary environmental tariffs, carbon neutrality, etc.</li> <li>• In collaboration with Western Stevedoring explore fourth berth options in the South-island region</li> <li>• In collaboration with the Port of Seattle, pursue Pacific Northwest cruise itineraries</li> <li>• Implement a sustainable cruise strategy that addresses who we will sustainably grow over the next 10 years and determines what the visitor/resident interface looks like</li> <li>• Pursue berth utilization during the non-cruise season in collaboration with Western Stevedoring</li> <li>• Develop new revenue streams at the Breakwater District at Ogden Point</li> </ul>
<b>Marinas</b>	<ul style="list-style-type: none"> <li>• Update the facility plan for Fisherman’s Wharf, which will include a mid-to-long range plan including the revitalization of Huron Pier, replacement of the fuel dock and development that aligns with the zoning and needs of the community</li> <li>• Pursue customer growth opportunities that support the facility plan</li> <li>• Enhance the Inner Harbour summer line up on the Inner Harbour Causeway</li> </ul>
<b>Commercial</b>	<ul style="list-style-type: none"> <li>• Address expiring memorandum of agreement with float homeowners</li> <li>• Implement a go-forward strategy with the Steamship Terminal given recent tenant movements</li> <li>• Implement a standardized commercial lease across all properties</li> <li>• Implement a market rate strategy across all properties</li> <li>• Explore development opportunities at all facilities as they arise</li> </ul>
<b>Community Amenities</b>	<ul style="list-style-type: none"> <li>• Develop a strategy to attract public and private investment to sustain community amenities</li> <li>• Complete an economic impact assessment of the harbour</li> <li>• Develop a government relations strategy to seek government funding</li> </ul>
<b>Asset Management Strategy</b>	<ul style="list-style-type: none"> <li>• Implement asset management framework</li> <li>• Complete facility condition assessments across all properties</li> </ul>
<b>Organization</b>	<ul style="list-style-type: none"> <li>• Continue to roll out customer service focus strategies</li> <li>• Seek efficiencies through ongoing process improvement</li> <li>• Complete the business continuity plan</li> <li>• Implement enhanced reporting plans</li> <li>• Implement revised key performance indicators</li> </ul>

<b>People</b>	<ul style="list-style-type: none"> <li>• Become an employer of choice</li> <li>• Support staff training and development opportunities</li> <li>• Implement standard onboarding and off boarding process</li> <li>• Implement new performance review process</li> </ul>
<b>First Nations</b>	<ul style="list-style-type: none"> <li>• Continue to develop and implement a First Nations engagement strategy based on our commitment to the Canadian Council for Aboriginal Business Progressive Aboriginal Relations (PAR) Program. This includes: <ul style="list-style-type: none"> <li>○ Employment-Increasing indigenous participation in our workforce through job shadowing programs and skills and training programs</li> <li>○ Business Development-support and endorsement of our Indigenous Business Directory and focus on increasing our procurement from Indigenous businesses</li> <li>○ Community Relations-Pursuit of initiatives that support First Nations economic and cultural interests in the harbour</li> <li>○ Leadership-an effort to play a leadership role in indigenous relations in Victoria sharing our experience and lessons learned</li> </ul> </li> </ul>
<b>Environment</b>	<ul style="list-style-type: none"> <li>• Explore environmental contamination cost recovery options at the Breakwater District at Ogden Point</li> <li>• Reinstate staff-led environment Committee</li> <li>• Work with Board of Directors to include further environmental oversight</li> <li>• Re-certify Clean Marine BC (Marinas) and Green Marine (deep-water terminal)</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, 2020, 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



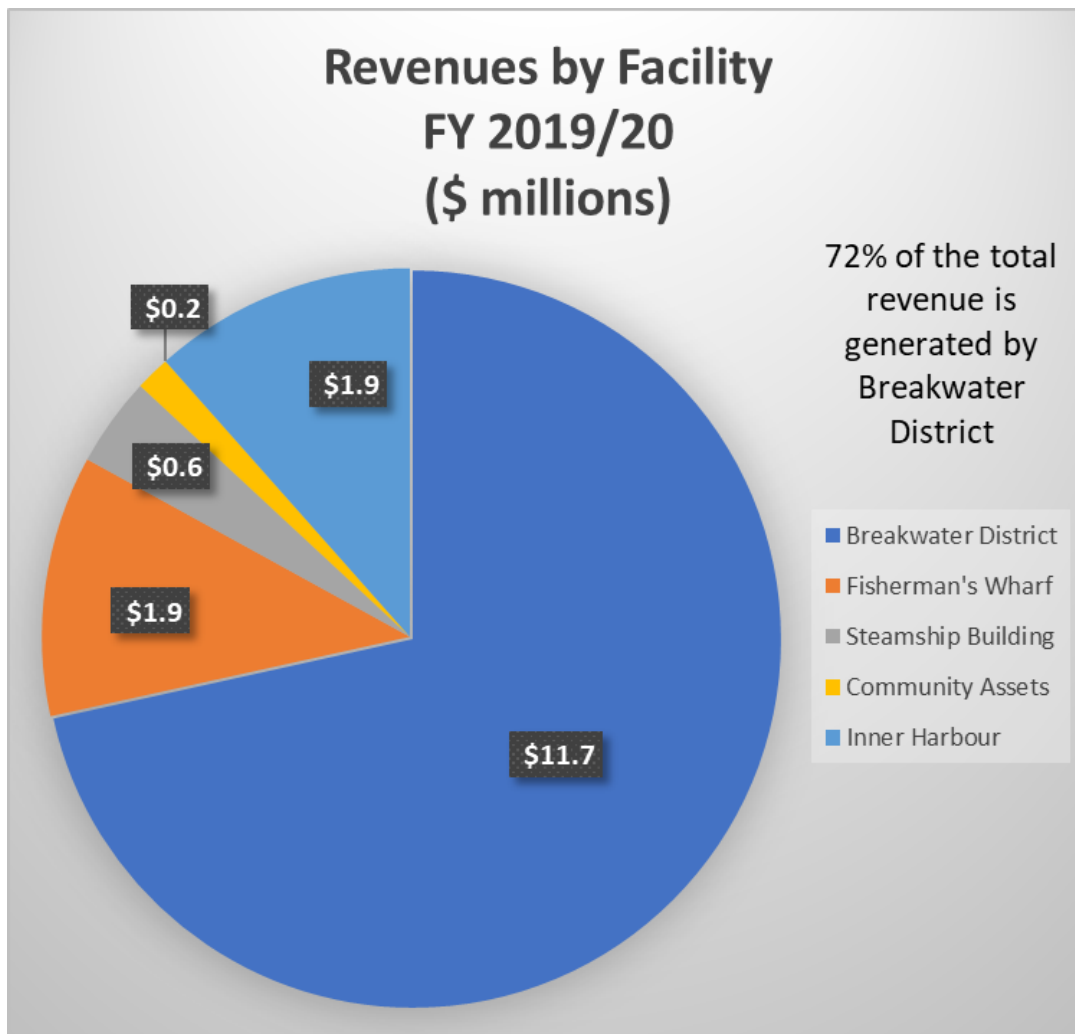
## FY 2019/20 FINANCIAL RESULTS

The following details should be read in conjunction with GVHA's annual Audit Financial Statements as of March 31, 2020.

### Statement of Operations

**Revenues:** 2019-20 was our strongest revenue year to date. Shipping revenues, focused at Breakwater District and including cruise ships, yacht transshipment, cargo ship hold cleaning, research vessel berthing and stopovers, and cable ship home porting, saw revenue growth of 9% over the prior year. Marina revenues saw a growth of 9% due to increased occupancy levels.

Gross revenue by facility for the year ended March 31, 2020:



**Cruise sustainability fee:** in 2010, GVHA, in consultation with cruise lines, implemented a cruise sustainability fee for all cruise lines calling at Breakwater District to support the essential ongoing investment in cruise infrastructure. In 2019/20, cruise lines contributed \$1.8 million towards cruise infrastructure, with a total of \$10.3 million contributed since inception.

**Other recovered costs and in-kind sponsorship:** in 2018/19 there were recovered capital costs at the Steamship building, there were no capital recoveries in 2019/20 so other recovered costs decreased.

**Expenses:** Operating costs increased by 4.3%, largely driven by general operating expenses and administrative costs. Insurance costs continue to increase as replacement costs on the assets become known and insured for. GVHA, along with its tenants, remains among one of the highest individual payers of property taxes in the City of Victoria, contributing \$0.9 million. Interest expense has increased as the loan for the dolphin project has been utilized.

**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). Due to the advent of Covid-19 the market saw a significant downturn in February and March of 2020. This has led to a net investment loss of \$ .32 million.

## 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 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, 2020 the fund balance of \$5.7 million was at 23% 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.

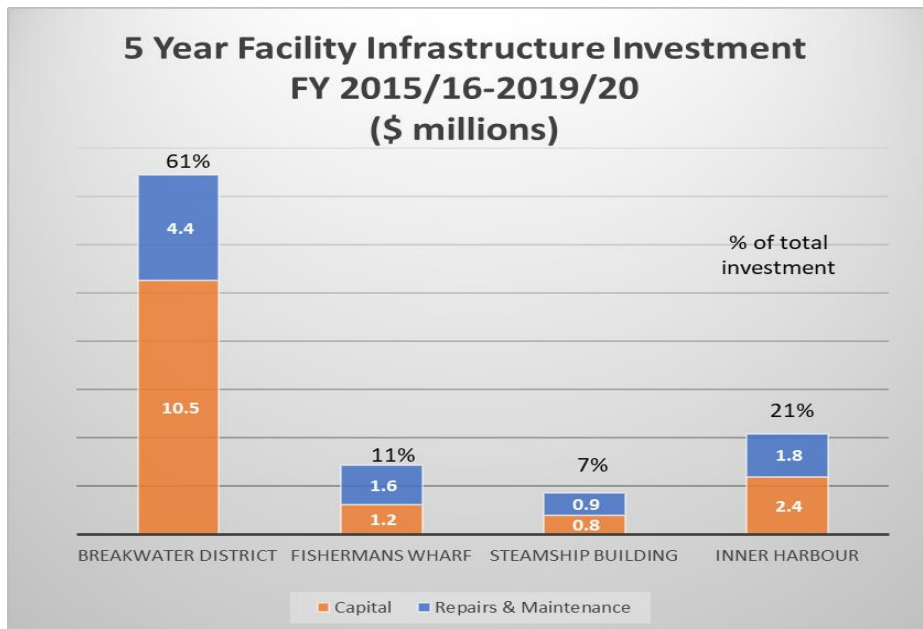
GVHA uses its Capital assets to deliver services to its' customers and the public. Initial investment in these assets has been provided from Transport Canada's divestiture. The investment in capital assets includes harbour land (non-depreciable asset), wharves, docks, buildings, piers, Breakwater District breakwater, furniture, equipment, leasehold improvements, vehicles, and boats, and information technologies.

Capital assets as of March 31, 2020 were recorded at a net book value of \$62.5 million (net of accumulated amortization).

Capital investment for the year of \$5.5 million (\$4.1 million 2018-19) was comprised of:

- **Breakwater District** \$4.8 million: Master plan progress, the Dolphin project and bollard project work in progress, LED Hi Mast Lamping, Breakwater barge upgrades, pedestrian ramp, signage enhancements and the beginning of the investigation into the feasibility of Shore Power
- **Fisherman's Wharf** \$0.2 million: Backflow preventers, a new waste management facility and signage upgrades
- **Inner Harbour** \$.4 million: Ship Point Pier upgrade was completed, and we also completed a facility condition assessment

GVHA has invested \$23.6 million into its facilities during the last 5 years, as shown in the table below, which represents 34% of the total revenues earned during that timeframe. While Breakwater District has consumed 61% of the investment (\$14.9 million) the Cruise Sustainability Fee received from the cruise lines has contributed \$4.4 million directly towards the costs.



## **Liabilities**

In 2019/20 GVHA signed a credit facility with Coast Capital Savings Federal to finance the Breakwater District Dolphin extension project. This loan was originally classed as long-term debt on the financial statements. However, we set the loan up as a variable interest loan to take advantage of the lower interest rates and flexibility this type of loan affords. The loan is therefore callable by Coast Capital and has been classed on the financial statements under current liabilities as Demand Loan. The maximum value of this loan is \$8.5 million, at year end the value of the loan was \$5.9 million.

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 \$37.6 million
- Internally restricted reserve fund relates to the funds allocated for specific use. There are three separate funds that GVHA has currently. The Restricted Reserve Fund (\$5.7 million), the Cruise Sustainability Fund (\$1.9 million) and the Fuel Dock Capital Fund (\$.14 million)
- Unrestricted net assets are available to fund the replacement of assets, future growth, and to meet ongoing future obligations, at \$6.7 million

## **FINANCIAL OUTLOOK & PRIORITIES**

### **Three Year Business Plan**

FY 2019/20 was the first year of the 2019/22 Business Plan. The advent of Covid-19 has necessitated the closure of our terminal to cruise operations which accounts for over 70% of GVHA revenues. This has caused us to put our capital plans on hold, however, our plans for the next two years as stated in our business plan remain relevant. For the next two years GVHA will continue to focus on:

- Ensuring the long-term sustainability of cruise
- Completing all Facility Condition Assessments and implement an asset management

strategy

- Developing an investment strategy that strives for long-term financial sustainability with a triple bottom line view
- Developing a strategy for our community amenities including which best investment options, highest/best use/repair programs etc.
- Continuing organizational process improvements
- Developing a human resource strategy focusing on the culture of GVHA and the experience for both employees and customers
- Continuing to explore, implement, and maintain sustainability initiatives at all properties through a triple bottom line lens

## Property Plans

### Breakwater District at 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 Breakwater District 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, Breakwater District has experienced an average growth rate of 6% per year in its cruise operations. Although Covid-19 has caused the cruise industry to pause, we anticipate that cruise will return in the next cruise season. It is unclear at this point in time the level that cruise will return at. We will concentrate next year on ensuring the long-term health of GVHA.

Specific initiatives include:

- Promote Breakwater District as a potential economic development engine for the City of Victoria and the Region
- Preserve cruise industry business and associated benefit for the region
- Implement initiatives to increase and diversify revenue
- Implement measures to mitigate adverse impact of Breakwater District operations on 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 available on the main level. Opportunities include:

- Stable occupancy on all floors
- Forecourt activation
- Advertising revenues from exterior signage

### Inner Harbour

Our properties within the Inner Harbour locations contain significant untapped potential and will require capital investment over the near to medium-term. We will determine the highest and best use of GVHA land and water properties in the Inner Harbour and act as a catalyst with other harbour property owners to inspire positive change. We will proactively pursue opportunities for the Inner Harbour properties as follows:

- Causeway – develop a campaign to raise funds for the needed investments for the Causeway and consider alternative funding sources and/or service providers for the on-going maintenance responsibilities. We will continue to discuss the need for fair and reasonable rates for the use of the property with public event and festival operators that contribute to the sustainability of the asset.
- Ship Point Pier– investigate the potential to leverage the deep-water at this location and whether a business case may be made for capital reinvestment. Otherwise, we will enter into discussions with our Member Agencies and with public event and festival operators about the future viability of this property.
- Wharf St. Marina – actively investigate opportunities to maximize commercial potential of these sites, including the adjacent uplands (some of which are currently under Treaty negotiation). Investigate potential configuration redesign.
- Hyack and Johnson St. Marinas – maximize the commercial potential and revenue to GVHA of both properties when viewed as one contiguous water lot. We will initiate discussions with upland owners regarding future development and opportunities of looking at both land and water simultaneously. With right of first refusal commitments in place with two partners, GVHA is open to the highest and best use options for these marinas moving forward.

### Capital Assets

The advent of Covid-19 has necessitated that we put many of our capital projects for FY 2020/21 on hold. In the short term, GVHA’s capital budget anticipates spending in the following areas:

- **Breakwater District** \$ 3.5 million: Completion of the dolphin project, Shore Power study and completion of a Facility Condition Assessment.

Pending the return of cruise, we anticipate our capital spending to return to its budgeted levels. The upcoming 3-year budget cycle for GVHA, covering years 2020/21 to 2022/23, facility investment is anticipated to be \$36.3 million. Capital spending is \$29.4 million while repairs and maintenance is \$6.9 million. There are capital projects related to both revenue generating assets as well as public amenity assets requiring significant investment to maintain service levels and access. 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. 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.

Capital project plans are in the following areas:

- Breakwater District Pier B south breasting dolphin (\$2.5 million), berthing infrastructure equipment (\$2.7 million), breakwater phased repairs (\$1.5 million)
- Breakwater District Shore Power upgrade estimate (\$10 million)
- Fisherman’s wharf, Huron St Pier repairs (\$.5 million), infrastructure upgrades (\$.6 million)
- Broughton Street and Wharf street piers repairs (\$1.2 million), Lower south dock upgrade (\$1.8 million)
- Public amenity enhancements for non-revenue generating assets: Breakwater (\$0.3 million) structural improvements; Causeway improvements (\$1.3 million), Fisherman’s Wharf upland washrooms (\$.6 million)
- Remaining capital and maintenance funds cover smaller projects at all facilities

