

AIRPORT RENT RELIEF: THE DETAILS

10 May 2005



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OPINION

Two Components of Benefits. On 8 May 2005, Transport Minister Jean-C. Lapierre announced a program of rent relief for Canada's airports. The rent relief has two components:

- Reduced rent for each of the 21 rent paying airports in the National Airport System (NAS).
- Cancellation of any remaining payments for chattels from NAS airports.

The chattels forgiveness is an important benefit for 12 NAS airports who collectively still owe \$22 million over a period ending in 2014. The largest beneficiary is Prince George (\$4.2 million) followed by Gander (\$3.4 million). The largest airport in this group is Halifax (\$1.3 million), with benefits to a number of small airports, such as Charlottetown and Saint John. There are beneficiaries in 8 of the 10 provinces.

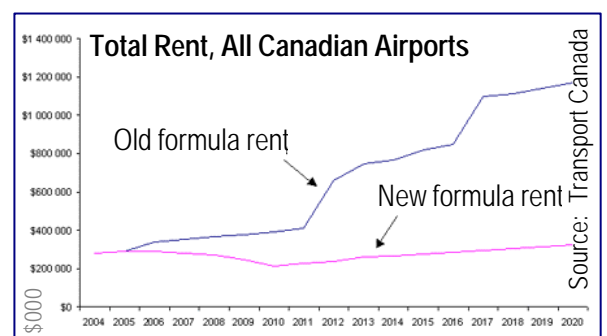
The rent reduction announcement follows several years of intense lobbying by the airports, their communities and stakeholders, the airlines, the tourism industry and, some pundits would say, the Transport Minister himself (with the Minister of Finance being the lobbying target).

Justification. The underlying justification for the rent reductions comes from Transport Canada's review of rents, which began in June 2001. The review was the result of comments in 2000 by the Auditor General, as well as pressures from the airports and airlines. The rent reduction announcement essentially indicated that the rent review found that rents paid by the Canadian NAS airports were excessive when compared to public utilities and to foreign airports that had been privatised. That comparison suggested that the appropriate level of rents should have been \$5 billion (in net present value, NPV), rather than \$13 billion.

The big picture. The announcement focused on the big picture, but the devil is in the details. The big picture is that every one of the 21 airports will *eventually* enjoy reduced rent. The scale of the reduction is large: a 60% reduction in net present value of rents to be paid over a 58 year period - from an estimated \$12.9 billion in NPV to \$5.1 billion, for a total reduction of \$7.8 billion.

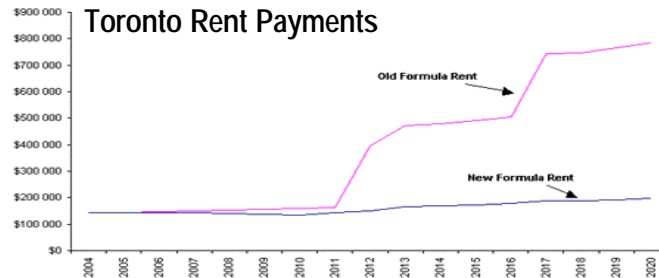
Limited benefit for next few years.

Now the details. The reduced rent is phased in slowly until FY2011, as the diagram shows. The benefits, although small, do begin in the current fiscal year. Beginning in FY2012, there is a big increase in benefit, largely due to rent relief finally being extended to Toronto. Essentially, the rent relief program keeps the impact on the federal treasury low for next few years. Some might say the government is providing relief for future amounts it has not yet worked into its budget.



More Equitable. The new rent formula (see next page) is simple, transparent, and eliminates anomalies where airports of similar size paid very different rent.

Toronto. However, Toronto receives almost no rent reduction in the first six years. In fact, the Greater Toronto Airport Authority was critical of the rent relief announcement. Not only does it receive little in the way of rent reduction until 2012, it criticised the new formula for essentially charging rent on revenues required to pay for property taxes (technically, payments in lieu of taxes), capital construction costs, and interest payments on debt required for new construction. Not only is rent relief postponed, it will pay higher rent in 2006 than in 2005.



According to GTAA, it is currently paying 43% of total airport rent payments in Canada but this will eventually grow to 66%. As well, the GTAA criticised the continuing competitive imbalance, as U.S. airports with which it must compete pay no rents and are often subsidised by their governments.

GTAA has vowed to continue to press for rent relief for Toronto International Airport.

Others. Many of the other airport authorities welcomed the rent relief announcement. Airports with less than \$5 million in annual revenues will pay no rents, and the graduated scale of rent payments will keep rents down for most small and mid sized airports. The graduated rent scale (see box) works much like progressive income tax schedules – as you earn more, the percent you pay increases with each income bracket.

The table and selected graphs on the following pages provides detail for each affected airport on the rents it will and would have paid.

New Airport Rent Formula	
Gross Revenue (millions pa)	Rent Paid
On the first \$0 to \$5 million	0%
On the next \$5 million	1%
On the next \$15 million (total \$25)	5%
On the next \$75 million	8%
On the next \$150 million	10%
Any amount over \$250 million	12%

Assessment. Overall, this is an important step for most of Canada's airports. *The principle* argued by the airport authorities and their stakeholders that rent payments were not *equitable* among the NAS airports has been accepted, as was the argument that the level of rent payments was *excessive*. The Ministers (Transport and Finance) and the Transport Canada staff are to be credited with making this important first step. The deferral of rent relief at Toronto, on the other hand, is of great concern. It is the major hub for Air Canada and an important point in the networks of WestJet and CanJet. Much of Canada's traffic still uses this airport and its level of costs impacts the viability of tourism, carriers, shippers and other stakeholders. With IATA and the carriers complaining that Toronto's charges are among the highest in the world, it is a disappointment that improving the competitiveness of this important piece of national infrastructure was deferred.

Canadian Airport Rents and Savings Under New Rent Formula

Airport	Rent	2006	2010	2015	2020	Total
All Airports	Old Formula	\$337 million	\$390 million	\$818 million	\$1.2 billion	\$12.9 billion
	New Formula	\$289 million	\$214 million	\$274 million	\$0.3 billion	\$5.1 billion
	Savings	\$48 million	\$176 million	\$544 million	\$0.9 billion	\$7.8 billion
Toronto	Old Formula	\$147 million	\$161 million	\$491 million	\$785 million	\$8 billion
	New Formula	\$144 million	\$135 million	\$173 million	\$198 million	\$3 billion
	Savings	\$3 million	\$26 million	\$318 million	\$587 million	\$5 billion
Vancouver	Old Formula	\$81 million	\$99 million	\$125 million	\$151 million	\$2.0 billion
	New Formula	\$75 million	\$30 million	\$ 41 million	\$ 51 million	\$0.9 billion
	Savings	\$ 6 million	\$69 million	\$ 84 million	\$100 million	\$1.1 billion
Montreal	Old Formula	\$23 million	\$33 million	\$84 million	\$96 million	\$1.0 billion
	New Formula	\$19 million	\$23 million	\$25 million	\$31 million	\$0.5 billion
	Savings	\$4 million	\$10 million	\$59 million	\$65 million	\$0.5 billion
Calgary	Old Formula	\$47 million	\$51 million	\$54 million	\$57 million	\$809 million
	New Formula	\$24 million	\$10 million	\$15 million	\$17 million	\$305 million
	Savings	\$23 million	\$41 million	\$39 million	\$40 million	\$504 million
Ottawa	Old Formula	\$13.2 million	\$17 million	\$21 million	\$24 million	\$332 million
	New Formula	\$12.5 million	\$4 million	\$4 million	\$5 million	\$112 million
	Savings	\$0.7 million	\$13 million	\$17 million	\$19 million	\$220 million
Edmonton	Old Formula	\$13 million	\$14 million	\$15 million	\$15 million	\$192 million
	New Formula	\$4 million	\$5 million	\$7 million	\$8 million	\$103 million
	Savings	\$9 million	\$9 million	\$8 million	\$7 million	\$89 million
Winnipeg	Old Formula	\$3.92 million	\$6 million	\$10 million	\$17 million	\$164 million
	New Formula	\$3.89 million	\$4 million	\$ 5 million	\$ 6 million	\$ 81 million
	Savings	\$0.03 million	\$2 million	\$ 5 million	\$11 million	\$ 83 million
Halifax	Old Formula	\$4.5 million	\$5 million	\$8 million	\$11 million	\$119 million
	New Formula	\$4.2 million	\$3 million	\$3 million	\$4 million	\$63 million
	Savings	\$0.3 million	\$2 million	\$5 million	\$7 million	\$56 million
Victoria	Old Formula	\$1.2 million	\$1.8 million	\$1.9 million	\$2.3 million	\$23 million
	New Formula	\$1.1 million	\$0.4 million	\$0.5 million	\$0.7 million	\$11 million
	Savings	\$0.1 million	\$1.4 million	\$1.4 million	\$1.6 million	\$12 million

Canadian Airport Rents and Savings Under New Rent Formula

Airport	Rent	2006	2010	2015	2020	Total
Québec	Old Formula	\$0	\$1.45 million	\$2.64 million	\$2.7 million	\$18 million
	New Formula	\$0	\$0.04 million	\$0.04 million	\$0.1 million	\$2 million
	Savings	\$0	\$1.41 million	\$2.60 million	\$2.6 million	\$16 million
St John's	Old Formula	\$578,000	\$628,000	\$1.2 million	\$2.2 million	\$17.0 million
	New Formula	\$207,000	\$338,000	\$0.6 million	\$0.8 million	\$ 8.3 million
	Savings	\$371,000	\$290,000	\$0.6 million	\$1.4 million	\$ 8.7 million
Regina	Old Formula	\$680,000	\$742,000	\$968,000	\$1.2 million	\$10.7 million
	New Formula	\$49,000	\$135,000	\$222,000	\$0.4 million	\$3.7 million
	Savings	\$631,000	\$607,000	\$746,000	\$0.8 million	\$ 7.0 million
Saskatoon	Old Formula	\$678,000	\$737,000	\$814,000	\$899,000	\$7.6 million
	New Formula	\$45,000	\$99,000	\$217,000	\$340,000	\$2.8 million
	Savings	\$633,000	\$638,000	\$597,000	\$559,000	\$4.8 million
Thunder Bay	Old Formula	\$331,000	\$459,000	\$743,000	\$1.06 million	\$7.6 million
	New Formula	\$12,000	\$21,000	\$35,000	\$0.05 million	\$0.7 million
	Savings	\$319,000	\$438,000	\$708,000	\$1.01 million	\$6.9 million
Moncton	Old Formula	\$0	\$0	\$0	\$1.5 million	\$7.5 million
	New Formula	\$0	\$0	\$0	\$0.3 million	\$2.4 million
	Savings	\$0	\$0	\$0	\$1.2 million	\$5.1 million
London	Old Formula	\$0	\$32,000	\$722,000	\$817,000	\$5.3 million
	New Formula	\$0	\$26,000	\$33,000	\$49,000	\$1.1 million
	Savings	\$0	\$6,000	\$689,000	\$768,000	\$4.2 million
Prince George	Old Formula	\$0	\$0	\$636,000	\$705,000	\$4.3 million
	New Formula	\$0	\$0	\$39,000	\$60,000	\$1.0 million
	Savings	\$0	\$0	\$597,000	\$645,000	\$3.3 million
Gander	Old Formula	\$0	\$0	\$0	\$636,000	\$3.4 million
	New Formula	\$0	\$0	\$0	\$47,000	\$0.5 million
	Savings	\$0	\$0	\$0	\$589,000	\$2.9 million
Frederic- ton	Old Formula	\$0	\$0	\$0	\$345,000	\$1.4 million
	New Formula	\$0	\$0	\$0	\$ 22,000	\$0.3 million
	Savings	\$0	\$0	\$0	\$323,000	\$1.1 million
Saint John	Old Formula	\$0	\$0	\$0	\$270,000	\$1.1 million
	New Formula	\$0	\$0	\$0	\$12,000	\$0.1 million
	Savings	\$0	\$0	\$0	\$258,000	\$1.0 million

Canadian Airport Rents and Savings Under New Rent Formula

Airport	Rent	2006	2010	2015	2020	Total
Charlottetown	Old Formula	\$0	\$0	\$0	\$304,000	\$984,000
	New Formula	\$0	\$0	\$0	\$11,000	\$187,000
	Savings	\$0	\$0	\$0	\$293,000	\$797,000

Source: Transport Canada: Airport Rent Policy Fact Sheets <http://www.tc.gc.ca/air/airport-rent/fact.htm>

