Subject: Airport Project Update – Terms of Transfer Negotiations

Report to: Corporate Services Committee

Report date: Wednesday, September 11, 2019

Recommendations

1. That Regional Council **APPROVE** adopting sole ownership of Niagara District Airport (NDA) based on the Terms of Transfer in Appendix 1 with consideration of Regional staff additions, and subject to 2020 budget approval.
2. That Regional Council **APPROVE** adopting sole ownership of Niagara Central Dorothy Rungeling Airport (NCDRA) based on the Terms of Transfer in Appendix 1 with consideration of Regional staff additions, and subject to 2020 budget approval.
3. That Airport Operations **BE REFERRED** for consideration as part of the 2020 budget process.
4. That, pending approval of recommendations 1 and 2, staff will conduct the necessary due diligence to inform a formal transfer of assets and the results will **BE REFERRED** to Council for information.

Key Facts

- The purpose of this report is to seek Regional Council's resolution regarding the sole ownership of both the NDA and NCDRA airports by the Niagara Region, under the terms of transfer presented by the CAO taskforce, as directed through an approval in principal by Regional Council on September 22, 2016.
- The proposed terms of transfer outlined by the CAO taskforce include an immediate transfer date of January 1, 2020, at which time all assets and liabilities associated with each Airport would be assumed by the Niagara Region, excluding the airport lands owned by the Town of Niagara on the Lake. The Governance structure would be determined after all funding obligations are transferred. If Council approves moving forward with sole ownership of both airports, the appropriate legal transfer documents will be created based on the terms of transfer in this report.
- The total operating and capital funding requirements are outlined under the analysis section of this report and estimate the total general levy impact under sole Regional ownership at 0.8% with a minimum 2020 budget consideration of 0.15% to fund baseline operations only as the local area municipalities have requested immediate upload and elimination of their funding contributions. A multi-year funding strategy to phase in the 0.8% increase for the Airport's existing capital backlog plus the 10 year capital requirements is being proposed. The capital backlog and 10 Year capital

forecast for both Airports is estimated at $25 million and would increase the Region's 2019 capital funding gap of $480 million by 5%.

- Should Council accept these terms of transfer, or approve a modified version of the terms, these approved terms of transfer will need be brought forward to each current owner municipal Council for approval before a formal transfer could occur.
- This transfer of ownership refers to a transfer of assets and the ongoing future operations of those assets, it is not a purchase. All financial costs outlined in this document entail future capital and operational funding requirements plus previously incurred debt at NCDRA, there are no costs for the actual transfer of assets. All owner municipalities have agreed to this, exclusive of the airport lands owned by the Town of Niagara on the Lake (NOTL). It is the understanding of staff that NOTL may wish to retain ownership of the lands, and the Region would pursue a long term lease agreement with the Town of NOTL for a nominal fee to utilize the lands, unfettered, for airport purposes. Should the Region wish to obtain ownership of those lands, the Region would have to negotiate separately the lands, likely as a purchase.

Financial Considerations

The Region's approved budget does not currently incorporate funding related to the governance or operations of an airport. Should the Region assume such a role, there will be a direct financial impact to annual operating and capital funding commitments, as well as the associated risks.

Airports rely on ongoing investment to meet compliance requirements, as such, the existing needs of the airports will result in a 5% increase to the Region's 10 Year capital funding gap of $480 million (as reported in the 2019 Budget process). The additional investments which would be necessary to leverage future development opportunities would result in incremental pressures on the existing capital funding gap beyond the initial 5%.

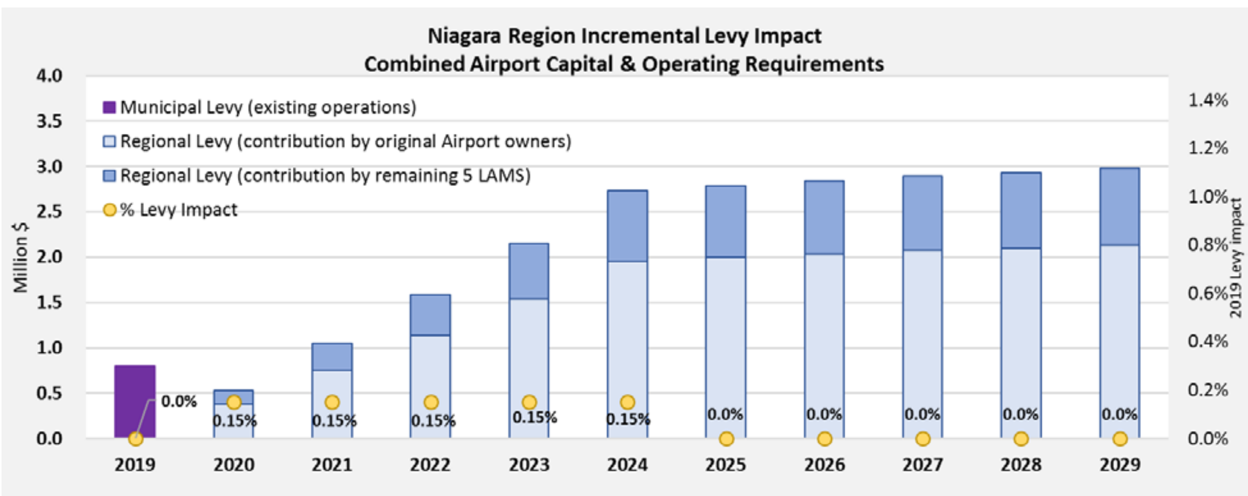
Graph 1: Incremental Airport Impact to Existing 10 Year Capital Funding Gap

The cost of operations for the airports was identified through report CAO 04-2019 which estimated a required 2020 levy impact of 0.6% in order to achieve optimal operating and capital financing levels. However, this estimate was based on existing owners contributing to both operating and capital during the transition year of 2020. The new terms of transfer do not contain this assumption and therefore the total general levy impact from the upload of both airports has been revised upwards to 0.8%.

The existing capital backlog for both airports is estimated at $10 Million and consists of $3.0 Million at NDA and $7.0 Million at NCDRA. Under the presented terms of transfer, all existing capital backlog would be uploaded to the Region as of January 1, 2020 and as such should be referred for future budget consideration as part of all other Capital needs.

The revised funding strategy under the presented terms of transfer for sole ownership of both Airports recommends a 0.15% general tax levy increase each year over a 5-years. In year 1, 2020, the $0.53 Million in operating costs are uploaded to the Region, years 2-5 incrementally fund the existing and future capital requirements.

Graph 2: Incremental Levy Impact associated with Niagara Region Airport Operations



In order to realize future opportunities for growth beyond the existing airport operations, capital investments beyond the expenditures considered within this report would need to be evaluated against the potential economic impact and revenue generation. Revenue generated through fuel sales or new hangar leases may help offset required capital investments and would further increase the tax assessment benefiting the Region, the Town of Niagara-on-the-Lake (NOTL) and the Town of Pelham.

A 10-year review of the operating and capital funding requirements identified for the airports is outlined within the Analysis section of this report and in Appendix 2. The analysis is based on existing operations and does not assume any additional expenditures or revenues associated with growth or expansion. Any additional investments necessary to leverage future development opportunities would be accompanied by detailed business cases and be referred for future budget consideration as part of all other Capital needs.

The financial implications of this report should be considered along with the following budget items. Budget pressures have been outlined by staff in the following table to illustrate the levy increase impact expected for the 2020 budget. These increases are being referred for consideration as part of the 2020 budget process.

Table 1: Previously Identified 2020 Budget Considerations

	Council Report	Levy Amount (M$)	Levy Increase %
Previously identified reports			
Suicide Prevention Initiative	PHD 8-2019	0.200	0.05%
Niagara Airports	CSD 62-2019	0.530	0.15%
Waterfront Investment Program – Base funding	CSD 40-2019	1.000	0.27%
Smarter Niagara Incentive Program – Base funding	CSD 40-2019	0.600	0.16%
Brock LINC request for funding	ED 9-2019	1.500	0.41%
Niagara Regional Transit - phase in cost	CSD 40-2019	6.213	1.70%
NRPS 2019 position hiring deferral	BRC-C 7-2019	0.706	0.19%
Long-Term Care Home Redevelopment capital funding	COM 32-2019	5.899	1.62%
GO Project - Station Operations	CSD 17-2019	1.410	0.39%
EMS Central Hub capital funding	CSD 40-2019	0.390	0.11%
Total of previously identified reports		**18.448**	**5.05%**

Analysis

Project Overview

In 2016, Niagara Regional Council approved in principle to adopt sole responsibility of both the Niagara District Airport (NDA) and the Niagara Central Dorothy Rungeling Airport (NCDRA) subject to the completion of a Phase 2 Environmental Assessment (EA) on each airport. In 2018 the results of the Phase 2 EA indicated that there were no soil or groundwater impacts identified requiring further action or remediation. In May 2019, current Regional Council was given an update on the project, and made a motion to move forward with a terms of a transfer of ownership to the Region and a full cost assessment that could be considered by Council. These terms were identified by a representation of CAOs from current owner and non-owner municipalities and were provided to Regional staff to present to Council. Appendix 1 of this report provides the terms of transfer as a unified position of the CAO Taskforce. Regional staff have made minor additions to clarify and further inform Council in Appendix 1 of this report. It is anticipated that Council will review the Terms in Appendix 1, as well as staff's additions. Should the Region approve adopting sole ownership of the airports, the formal transfer documents would be based on these outlined terms and the additions / clarifications of staff.

It is anticipated that through this report, Council will review the terms of transfer, as well as the financial implications to inform a decision regarding whether Regional Council would like to move forward under the proposed terms and refer for consideration as part of the 2020 budget process.

The Economic Development division has retained a consultant to conduct a review of the potential and future opportunities for both airports. The final impacts contained in this report are the minimum requirements to ensure optimal funding for existing Airport operations. The results of the consultant report, anticipated in November, will speak to incremental items including infrastructure assessments, an economic profile as it relates to development concepts to bring the airports to their potential, and possible revenue generation opportunities, among others. The consultants have had conversations with business leaders in Niagara, such as in the tourism and hospitality sector, to identify opportunities for future connections, the results of which will be shared by the consultants in their report back to Council.

Terms of Transfer

A CAO Taskforce was made up of equal representation from airport owners and non-airport owners, along with the Region's acting CAO to outline the terms of negotiation that have been presented in Appendix 1, for Council's consideration. These terms capture the transfer of operations, airport assets and liabilities, current or future, associated with the airports.

This transfer of ownership refers to a transfer of assets and the ongoing future operations of those assets, it is not a purchase. All financial costs outlined in this document entail future capital and operational funding requirements plus previously incurred debt at NCDRA, there are no costs for the actual transfer of assets. All owner municipalities have agreed to this, exclusive of the airport lands owned by the Town of Niagara on the Lake (NOTL).

It is the understanding of staff that NOTL wishes to retain ownership of the lands, and the Region would pursue a long term lease agreement with the Town of NOTL for a nominal fee to utilize the lands, unfettered, for airport purposes. Should the Region wish to obtain ownership of those lands, the Region would have to negotiate separately the lands, likely as a purchase. It is important to note that NOTL purchased the lands for $1 from the federal government, and are restricted in use to airport operations.

Should the terms of transfer as outlined in Appendix 1 be accepted as-is, or with the recommended additions by staff, they would not be binding, but would inform the development of the proper legal transfer of ownership documents and would be subject to final 2020 budget approval. A formal transfer of assets would be conditional upon a full review of any documentation that has not yet been provided to the Region for review, and time would be required for this due diligence. Meeting the suggested January 1, 2020 transfer date proposed by the local area CAOs would be contingent on receiving budget approval and all requested legal and financial documentation in a timely manner.

Operating and Capital Costs

Costs associated with operations of the airport are outlined below, for the Region-only ownership model, at the transition date suggested by the existing local area municipal owners of January 1, 2020. The airports operate at a net loss, requiring contributions by the local municipal owners.

Regional staff have prepared a 5-year capital funding transition to increase the current funding levels to support the airports' current capital needs. The total levy impact of this model is 0.8%. At the current state, existing municipal owners contribute $0.88M annually, which creates a funding gap of $1.65M and in accumulation, has created a backlog of capital projects at both airports. The true annual funding required to bring the airports up to full operations, exclusive of growth, is estimated at $2.53M.

Regional staff has created a 5-year transition with the first year funding existing operations and capital financing requirements evenly distributed across the remaining 4 years. The financial strategy is outlined in Table 2 and depicted in Graph 3 below.

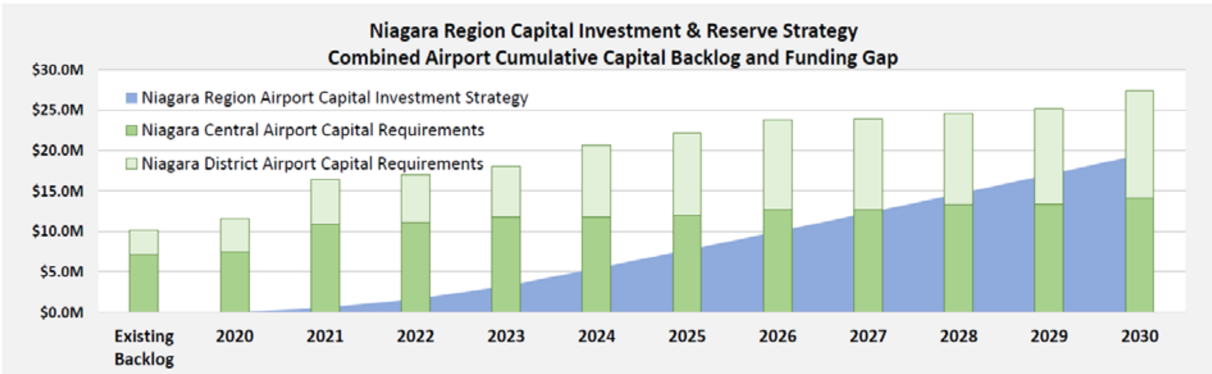
Table 3: 10 Year Capital and Operating Forecast: Baseline Operations

Airport Commission (*combined airports*)
Required Level of Funding

		5-year capital phase-in									
		Year 1	*Year 2*	*Year 3*	*Year 4*	*Year 5*	*Year 6*	*Year 7*	*Year 8*	*Year 9*	*Year 10*
million $	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**
Net Operating Cost	$0.46	$0.50	$0.51	$0.52	$0.53	$0.54	$0.55	$0.56	$0.57	$0.58	$0.59
Municipal debt financing	$0.03	$0.03	$0.03	$0.03	$0.03	$0.03	$0.03	$0.03	$0.03	$0.00	$0.00
Capital Financing Cost	$0.36	$0.00	$0.51	$1.04	$1.59	$2.16	$2.21	$2.25	$2.30	$2.34	$2.39
Total Operating and Capital Investment	$0.84	$0.53	$1.05	$1.59	$2.15	$2.73	$2.79	$2.84	$2.90	$2.93	$2.98

Assumption: backlog of $10.4M; and a 3-year capital reserve target strategy

Graph 3: 10 Year Capital Investment Strategy



**A more fulsome overview of this financial model is included in Appendix 2 of this report.*

Currently, Regional staff are utilizing consultant reports prepared in 2016 to identify the financial estimates for the capital backlog at each airport. From the 2016 consultant reports, NCDRA's capital forecast identifies $10.0M in capital required by 2022 (including backlog), while NDA's capital forecast identifies $3.4M to-date in capital backlog. The total 10 year capital forecast, including the existing capital backlog is estimated at $25 million and would increase the existing 2019 10 year capital funding gap of $480 million by 5% (see appendix 2 for full financial analysis).

Revenues

The current financial analysis assumes current baseline operations and revenue, any opportunities to increase revenue in relation to incremental capital investments would be assessed through detailed business cases. Should the Region take ownership, an airport master plan would be developed to inform economic opportunities and would be considered as part of future capital budget approvals. With increased investments in capital assets, it would stand to assume that there would be increases in tax revenues for both the Region and the Town of NOTL.

An example of this type of revenue for NDA is based on 190,000 square feet x $100 = $19.0 million in construction costs. With typically 75-80% assessable the Region would see CVA of $15.2 million and commercial taxes for Region at .0098 = $149,327 per year for Region. As NOTL owns the land at NDA, their portion would include commercial at .00369 and Storm Water at .00019 = $58,998 per year.

In addition to increased tax assessment revenue, there also exists the potential opportunities for hangar lease revenue and fuel sales, which may help mitigate existing or incremental capital and operational funding requirements of the airports.

At this time, in the absence of sufficient information, staff are not able to quantify expected revenues or increased offsets to costs, including any difference in revenue potential between each NDA and NCDRA, which is expected. These would be assessed as part of a long range airport plan should the Region take ownership of the airports. This would include a review and of investments compared to the benefits of the airports on an individual basis. The consultant report that the Economic Development division has commissioned will help to answer some of these questions.

Next Steps

Should Council approve adopting sole ownership of one or both airports, staff will proceed with the following items:

A formal transfer agreement with legal considerations will be made. Staff will follow parameters for evaluating all necessary documentation and information to be received by the airports, to inform this formal transfer, and will conduct a full review. Once all required legal or other documentation is received from the airports, and reviewed by staff, staff will proceed with creating the formal transfer agreement which will be brought back to Council.

Staff will also work to determine the appropriate governance model and administrative model to operate the airport(s) that would best suit the needs of Niagara and the Region as the new owner / operator.

Alternatives Reviewed

Should Regional Council decide not to move forward with a transfer of ownership from the existing municipal owners of one or both the NDA and the NDCRA to the Niagara Region, ownership would remain with the current owner / operator.

Relationship to Council Strategic Priorities

This report aligns with Council’s 2019-2022 Strategic Priority 1: Supporting Businesses and Economic Growth, and Priority 3: Responsible Growth and Infrastructure Planning.

Other Pertinent Reports

- CAO 04-2019
- TSC-C 12-2016
- TSC-C 13-2016
- PWC-C 22-2016
- PWC-C 23-2016

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Appendices

Appendix 1: CAO Taskforce - Terms of Transfer

Item	**Unified Position of CAO Taskforce: Itemized Terms of Transfer**	**Regional Staff Commentary**	**Additional Considerations for Council (prepared by Regional Staff)**
1 Transfer Date	The transfer of operations of the NDA and the NCDRA from existing municipal ownership to the Niagara Region will occur immediately on January 1, 2020 (the specific date of transfer is referred to as the "transfer date"). a) On the transfer date, and thereafter, the Niagara Region will assume all capital expenses b) On the transfer date, and thereafter, the Niagara Region will assume all operating expenses	• An immediate transfer date of January 1, 2020 would be dependent on access to the necessary legal documents and agreements such as tenant leases, financial asset documentation, and other information required to assess the current state of each airport. The Region is currently awaiting access to these documents.	N/A
2 Airport Assets	The following assets associated with the NDA and NCDRA will be transferred from the existing municipal ownership to the Niagara Region on the transfer date: a) All existing capital assets, exclusive of land of the NDA b) All existing tenant leases c) All existing reserves d) All other financial assets	• In order for the Region to bring the NDA to its economic potential, the Niagara Region would need control over the use of the land. If a transfer of ownership from the Town of Niagara-on-the-Lake is not agreeable, a long-term lease agreement which allows control over the use of the land would be required • A long term lease would be required that allows the Region unfettered access to the land, and ensures the Town will not withhold permits, etc.	*Minimum Requirement:* e) The Town of NOTL will engage in a minimum requirement of a long term lease (of minimal value) which allows the Region unfettered access to the airport land

3 Airport Liabilities	Any liabilities with the NDA and NCDRA (including but not limited to any debt issued previous to the transfer date to cover the funding requirements of the NDA and NCDRA) will be assumed by the Niagara Region on the transfer date	• The Niagara Region will assume upload of the airports as-disclosed, including financial liabilities and financial assets. • Both NDA and NCDRA incurred debt over the last 3 years; only the debt of NCDRA is being requested to transfer with the airport operations	N/A
4 Sale	The sale of any major assets belonging to the NDA or the NCDRA by the Niagara Region to a party other than municipal ownership will result in the Niagara Region distributing a portion of the sale price *(to be determined)* to municipal ownership. a) The distribution of the sale price must take place within 6 months of the sale date. b) The enforcement of this clause is limited to the 10 years immediately following the transfer date.	• Any sale of an asset would be utilized to support further investment into the airports, and in that case, there would be no distribution of sale price. • The current owner municipalities would have first right of refusal on any major assets belonging to the NDA or the NCDRA	*Modification:* In the event of a sale of any major assets (assets preceding transfer of ownership) belonging to the NDA or the NCDRA by the Niagara Region to a party other than municipal ownership, the proceeds of the sale that are in excess of the Region's capital and operating investment and not re-invested into the airports will distributed *(to be determined)* to the original municipal owners. a) The distribution of sale revenue not re-invested must take place within 6 months of the sale date. b) The enforcement of this clause is limited to the 10 years immediately following the transfer date.

Assumptions

1. 5-Year capital funding transition @ an even inclining rates for Niagara Region over remaining council term; 2020 full upload of Airport operating costs; Total Levy Impact is 0.8%

2. Existing capital backlog for both Airports will be uploaded to the Region for future budget consideration as part of all other Capital needs

3. Total Capital Backlog plus 10 year capital forecast is $25M; Niagara Central capital forecast recommends $10.0M in capital by 2022 including backlog

4. Current analysis does not address NOTL "PIL"; Dan investagating decision regarding continuation by Commission but won't impact operating analysis

Key Results

1. LAMS existing contribution is $0.88M but should be $2.53M therefore an annual funding gap of $1.65M

2. The 3-year average annual capital expenditure at NDA was $0.29M and at NCA $0.25M was invested in 2017 through a 10 year debenture; Existing capital backlog assumed by Niagara Region is $3.03 at NDA and $7.4 at NCA for a total of $10.42M

3. Tax payers in existing owner Municipalities except for NOTL will pay more than today but less than if they funded their Airport on their own

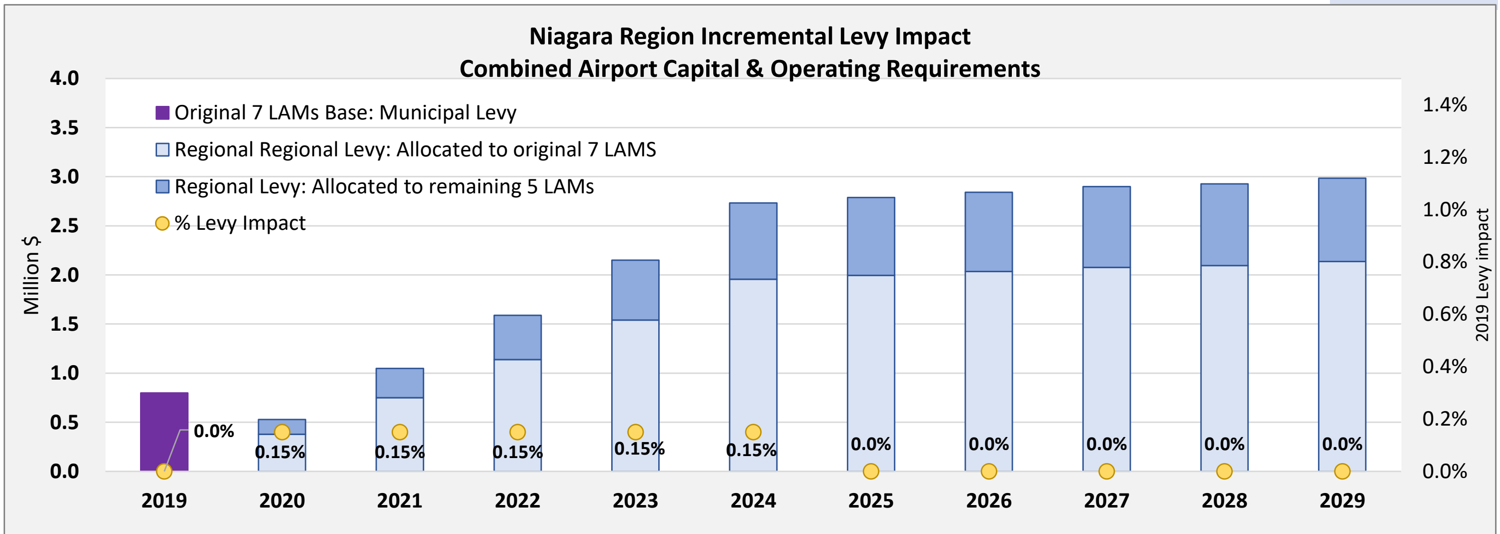
5. Additional land purchases from Seaway/Transport Canada to be completed in conjunction with the formation of Commission; deadline March 2020

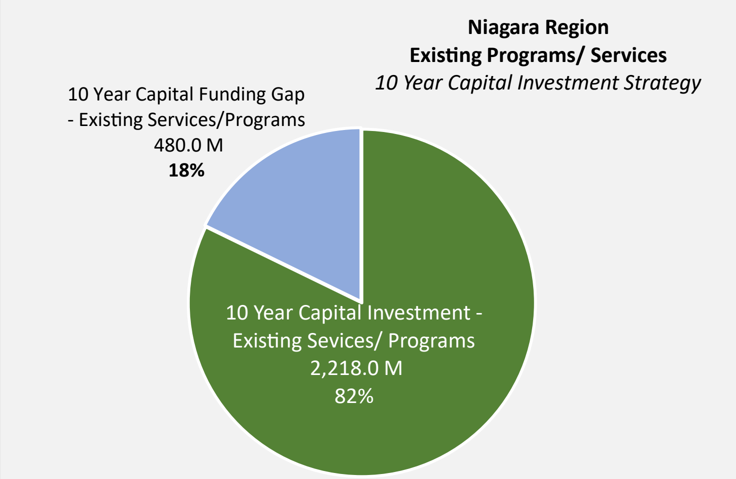
6. Commission costs have included previous debt servicing, that was issued for NCA in 2017

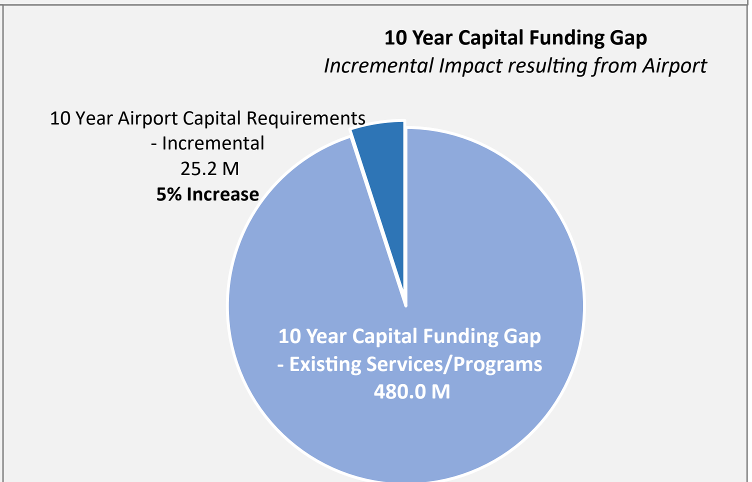
7. Airport Opportunites which result in increased tax revenue were based on 190,000 square feet x $100 = $19.0 million in construction costs. With typically 75-80% assessable we get CVA of $15.2 million and commercial taxes for Region at .0098 = $149,327 per year for Region and NOTL commercial of .00369 and Storm Water of .00019 = $58,998 per year for NOTL

8. Existing owner Municipalities refers to taxpayer inclusive of Regional and Local tax levy

NDAC 2019 Budget Presentation







Niagara District Airport

Required Level of Funding

million $	2019	*Year 1* 2020	*Year 2* 2021	*Year 3* 2022	*Year 4* 2023	*Year 5* 2024	*Year 6* 2025	*Year 7* 2026	*Year 8* 2027	*Year 9* 2028	*Year 10* 2029
		5-year capital phase-in									
Net Operating Cost	$0.40	$0.41	$0.42	$0.43	$0.43	$0.44	$0.45	$0.46	$0.47	$0.48	$0.49
Capital Financing Cost	$0.33	$0.00	$0.31	$0.62	$0.96	$1.30	$1.32	$1.35	$1.38	$1.41	$1.43
Total Operating and Capital Investment	$0.73	$0.41	$0.72	$1.05	$1.39	$1.74	$1.78	$1.81	$1.85	$1.89	$1.92

Assumption: capital backlog of $3.03M assumed by the Region; Airport reserve strategy to defer backlog until sufficient capital reserves accumulation for re-investment

Niagara Central Airport

Required Level of Funding

million $	2019	*Year 1* 2020	*Year 2* 2021	*Year 3* 2022	*Year 4* 2023	*Year 5* 2024	*Year 6* 2025	*Year 7* 2026	*Year 8* 2027	*Year 9* 2028	*Year 10* 2029
		5-year capital phase-in									
Net Operating Cost	$0.09	$0.09	$0.09	$0.09	$0.09	$0.10	$0.10	$0.10	$0.10	$0.10	$0.11
Municipal debt financing	$0.03	$0.03	$0.03	$0.03	$0.03	$0.03	$0.03	$0.03	$0.03	$0.00	$0.00
Capital Financing Cost	$0.03	$0.00	$0.20	$0.42	$0.64	$0.87	$0.88	$0.90	$0.92	$0.94	$0.96
Total Operating and Capital Investment	$0.15	$0.12	$0.32	$0.54	$0.76	$0.99	$1.01	$1.03	$1.05	$1.04	$1.06

Assumption: backlog of $7.4M to be assumed by the Region, Airport reserve strategy to defer backlog until sufficient capital reserves accumulation for re-investment

Airport Commission (*combined airports*)

Required Level of Funding

million $	2019	*Year 1* 2020	*Year 2* 2021	*Year 3* 2022	*Year 4* 2023	*Year 5* 2024	*Year 6* 2025	*Year 7* 2026	*Year 8* 2027	*Year 9* 2028	*Year 10* 2029
		5-year capital phase-in									
Net Operating Cost	$0.46	$0.50	$0.51	$0.52	$0.53	$0.54	$0.55	$0.56	$0.57	$0.58	$0.59
Municipal debt financing	$0.03	$0.03	$0.03	$0.03	$0.03	$0.03	$0.03	$0.03	$0.03	$0.00	$0.00
Capital Financing Cost	$0.36	$0.00	$0.51	$1.04	$1.59	$2.16	$2.21	$2.25	$2.30	$2.34	$2.39
Total Operating and Capital Investment	$0.84	$0.53	$1.05	$1.59	$2.15	$2.73	$2.79	$2.84	$2.90	$2.93	$2.98

Assumption: backlog of $10.4M; and a 3-year capital reserve target strategy

Airport Commission Regional Levy Outlook: 4 year capital reserve target strategy

Airport Commission Regional Levy *million $*	2019	**Year 1** 2020	**Year 2** 2021	**Year 3** 2022	**Year 4** 2023	**Year 5** 2024	Year 6 2025	Year 7 2026	Year 8 2027	Year 9 2028	Year 10 2029
		5-year capital phase-in									
St. Catharines	$0.00	$0.13	$0.27	$0.40	$0.55	$0.69	$0.71	$0.72	$0.74	$0.74	$0.76
Niagara Falls	$0.00	$0.10	$0.20	$0.31	$0.42	$0.53	$0.54	$0.55	$0.57	$0.57	$0.58
NOTL	$0.00	$0.05	$0.09	$0.14	$0.19	$0.25	$0.25	$0.26	$0.26	$0.26	$0.27
Welland	$0.00	$0.04	$0.08	$0.13	$0.17	$0.22	$0.22	$0.23	$0.23	$0.24	$0.24
Port Colborne	$0.00	$0.02	$0.03	$0.05	$0.07	$0.09	$0.09	$0.09	$0.09	$0.09	$0.10
Pelham	$0.00	$0.02	$0.05	$0.07	$0.10	$0.13	$0.13	$0.13	$0.13	$0.13	$0.14
Wainfleet	$0.00	$0.01	$0.02	$0.03	$0.04	$0.05	$0.05	$0.05	$0.05	$0.05	$0.06
Thorold	$0.00	$0.02	$0.04	$0.06	$0.09	$0.11	$0.11	$0.11	$0.12	$0.12	$0.12
Fort Erie	$0.00	$0.03	$0.07	$0.10	$0.14	$0.18	$0.18	$0.18	$0.19	$0.19	$0.19
Grimsby	$0.00	$0.04	$0.08	$0.12	$0.17	$0.21	$0.22	$0.22	$0.23	$0.23	$0.23
Lincoln	$0.00	$0.03	$0.07	$0.10	$0.14	$0.18	$0.18	$0.18	$0.19	$0.19	$0.19
West Lincoln	$0.00	$0.02	$0.04	$0.06	$0.08	$0.10	$0.10	$0.11	$0.11	$0.11	$0.11
Total Annual Levy	$0.00	$0.53	$1.05	$1.59	$2.15	$2.73	$2.79	$2.84	$2.90	$2.93	$2.98

Assumes a 5 year capital financing phase in period