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HALIFAX
REGIONAL MUNICIPALITY

PO Box 1749
Halifax, Nova Scotia
B3J 3A5 Canada

Halifax Regional Council
July 6, 2004

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY:

Dan English, Acting Deputy Chief Administrative Officer

S. Dale MacLennan, Director, Financial Services

DATE: June 29, 2004

SUBJECT: **Development Grant Agreement - Halifax International Airport Authority**

ORIGIN

Request of January 20, 2003 from the Halifax International Airport Authority (HIAA) to extend and potentially amend the existing agreement with the Halifax Regional Municipality. Letter from the HIAA of May 7, 2003 requesting support from the Halifax Regional Municipality in the HIAA's goal to having the Nova Scotia Legislation changed to reflect that property taxes for the Halifax International Airport be permanently based upon passenger volume.

RECOMMENDATION

IT IS RECOMMENDED THAT HALIFAX REGIONAL COUNCIL:

1. Adopt the Halifax International Airport Authority Development Grant Formula , Appendix A as attached , commencing fiscal 2004/05 and ending fiscal 2008/09, and;

2. Direct staff to prepare a Development Grant Agreement between Halifax Regional Municipality and Halifax International Airport Authority to be submitted to Halifax Regional Council for approval at a future date.

BACKGROUND

On April 28, 2000 HRM entered into a Development Grant Agreement with the Halifax International Airport Authority (HIAA) for a period commencing February 1, 2000 and ending with the taxation year commencing 2003 i.e., fiscal 2003/04. Pursuant to section 56(1) of the Municipal Government Act the only legislated mechanism to provide assistance to the HIAA is through a Development Grant Agreement. Through the agreement, the amount of the HIAA tax payment is defined, thereby indirectly setting the HRM Development Grant amount.

The existing agreement set the taxes with respect to buildings and other improvements in place at the Halifax International Airport (HIAA) as of January 1, 1999 at $528,898. This represents the old Payment in Lieu of Taxes formerly paid by the Federal Government. The existing agreement required that the difference between full taxation and the set amount of $528,898 would represent a development grant to the HIAA. It further required that the grant provided be used by the Authority in the expansion, improvement and development of the Halifax International Airport and the facilities and services situated thereon. The agreement specifically excluded expenditures related to the implementation of the HIAA's Pyritic Slate Runoff Management Plan. Any new expenditures under the Agreement would attract full municipal taxation.

Staff recommended that the agreement be entered into at that time, due in part to the transfer from the Federal Government of the Halifax International Airport and the uncertainty of the financial estimates of the newly formed Authority. In addition, there was an opportunity for HRM to partner with the HIAA (a not-for-profit and non-share capital community-based organization) in the expansion of the Airport.

DISCUSSION

The agreement has served both parties well with the HRM grant being used to promote the HRM. As required under the agreement, upon the request of the HRM, the HIAA has made an annual presentation to Regional Council outlining its achievements during each fiscal year of the agreement.

The Development Grant Agreement expired March 31, 2004. In accordance with this agreement an extension could be considered should notice be given any time prior to October 1, 2003. Notice was given January 20, 2003. Since that time staff of the HRM and the HIAA have been meeting to develop a new agreement for Council's consideration.

HIAA has indicated they believe it is critical to the continued expansion and operational success of the Airport that there be some form of tax relief and have proposed that taxation be based upon a formula predominately dependant upon passenger volume. The HIAA cites the following reasons to support a Development Grant :

- the uncertainty of assessment values,
- the requirement to construct non-revenue producing assets (the pyritic slate runoff treatment plant),
- the requirement to provide sufficient land for the preservation of rare species of plants and the requirement to build sufficient physical and operating capacity to address peak demand periods,
- the desire for United States Pre-clearance capacity.

Other Jurisdictions

A basic survey of other areas in Canada reveals the following:

- The Airport Authorities in Ontario (London, Toronto, Ottawa and Thunder Bay) are exempt under the Ontario Assessment Act for airport authority property. There is a payment "in lieu of taxation" (PILT) based upon enplane/deplane passengers. The portion leased to tenants is taxable which is also the case with the HIAA. The per passenger fee set by regulation varies from airport to airport.

- In Edmonton, the Alberta Municipal Government Act applies and the property is assessed and taxed at market value. The difficulty is that determining "Market Value" of an international airport is difficult. Therefore there is an obsolescence factor provided to allow for overbuilding based upon projected passenger volume versus actual.

- In Calgary the Alberta Municipal Government Act also applies, and consequently the airport is taxed for both property and business taxes, although the Calgary International Airport Authority itself does not pay business taxes under the Act. According to information provided by HIAA staff, The Calgary International Airport Authority has an understanding with the City of Calgary whereby different types of airport property are to be assessed under different methodologies- for example, the Air Terminal Building is assessed under a Cost methodology that takes into account such factors as physical depreciation, super-adequacy (i.e- overcapacity built for expected future passenger volume) and taxes payable by tenants directly, thereby reducing the overall assessed value by each of these factors.

- Winnipeg has undertaken an airport assessment study, in respect of which an interim report has been provided that supports a change to a revenue based taxation model, which model includes but is not restricted to revenues based on passenger volumes. This proposal is still under consideration by Winnipeg.

- In B.C., the B.C. Assessment Authority uses an assessment model for airports which model is the basis for the Winnipeg proposal, so it too includes, but is not restricted to revenues derived from passenger volumes.

Staff has had discussions with Municipalities in the Province of Ontario where passenger volume forms a significant basis of the tax formula for Airport Authorities and it is clear that there is at least one municipality that has serious concerns with the current arrangement. Other jurisdictions such as Winnipeg are currently studying this approach but circumstances vary from Province to Province and therefore in and of themselves, the experiences of these other jurisdictions do not provide definitive guidance for HRM on this issue.

Since the creation of Airport Authorities there has been significant discussion within municipalities across Canada in respect to taxation. Pressures from Airport Authorities for a different approach to taxation has come in the face of 1) the fact that airport authorities are subject to standard taxation rules, rather than PILT rules, 2) problems with the pass through of taxation costs as a result of the terms of the federal leases, 3) the pent up demand for airport improvements, 4) the HIAA infrastructure is developed based upon peak period and passenger flows and as such over-states their assessment values, e.g the departure and arrival facilities, and 5), the offices and space occupied by the Federal Government are included in the assessment values, yet the HIAA has no ability to charge for these facilities.

FCM has a Payment in Lieu of Taxes Committee which has recently discussed the move toward a revenue based model for the taxation of Airport Authorities. FCM made a submission in connection with Bill C-27, The Canada Airports Act, addressing, amongst other things, the issue of the payment of taxes by the Airport Authorities. The Winnipeg study has been commissioned in partnership with their Authority, a copy of which they have agreed to provide to the HRM. A Draft report may be complete as early as July of 2004. The information from the Winnipeg study should prove to be of assistance to municipal units in determining the best approach for the taxation of airport authorities under the new regime. This report is of tremendous interest to the HRM but there is also a need to provide stability and predictability for the HIAA while this report is completed.

Proposed HIAA Development Grant Agreement

For the purpose of calculating a new four year development grant for the HIAA, commencing fiscal 2005, a $0.22 per passenger rate, multiplied by total enplaned/deplaned passengers for each preceding calendar year, has been translated into a specific fixed amount in each of the four years. The passenger count is based on projections provided by the HIAA which are themselves based upon Transport Canada passenger forecasts. Within 18-24 months it is expected that HRM and the HIAA will be in a better position to reach conclusions on this issue and staff will continue to work with the HIAA to prepare a recommendation to Council. HRM staff are not adverse to the consideration of passenger volume as some basis of airport taxation; however, staff wish to examine and weigh the results of studies currently underway before making a recommendation to Regional Council. Therefore, staff cannot support the current request for HRM support for a change in legislation at this time. As well, both HRM and HIAA staff have expressed an interest and willingness in undertaking a joint study to determine the approach to airport taxation that would best suit the needs of both HRM and HIAA.

Term of Agreement

The Development Grant Agreement recommended would include the following provisions in respect to term of the agreement.

- The initial term of the agreement would be for five (5) years;
- The agreement would automatically renew for successive five (5) year terms, unless HIAA or HRM gives notice to the other at least twelve (12) months prior to the end of the current five (5) year term that it wishes to renegotiate the agreement;
- Upon notice being given, HIAA and HRM would negotiate in good faith in an effort to enter into a new agreement before the expiration of the existing agreement;
- If the terms of the renewal are not agreed upon before the expiration of the initial term of the agreement, and respectively before the end of each successive renewal term, the terms of the agreement then in place will continue until such time as either party gives notice that the agreement is terminated.

Summary

Staff is recommending a Development Grant formula which includes taxation of the Federal Assets assumed as at January 1, 1999 (former PILT amount) as well as fixed amounts as submitted by the HIAA which is based upon a rate of $.22 per estimated passenger volume for each previous year. (Passenger volumes are based upon Transport Canada passenger forecasts)

The only legislated mechanism to provide assistance to the HIAA is through the Development Grant formula. To this end staff is recommending that the Grant amount be the difference between full taxation of HIAA Assessment (as provided by the Province of Nova Scotia - Assessment Division) and the amount as calculated as follows:

- 2004/05, $1,000,000 - Flat amount for the transition year
- commencing 2005/06, $528,898 adjusted for the Halifax Consumer Price Index for each previous calender year accumulative, plus:
  fiscal 2005 $695,550;
  fiscal 2006 $724,246;
  fiscal 2007 $758,843 and
  fiscal 2008 $787,247
- the amount as calculated in any fiscal year can be no less than that of the previous year
- if the actual passenger volumes vary by more than 10% from the Transport Canada passenger volumes upon which this agreement has been developed, both HRM and HIAA would agree to attempt, on a best efforts basis, to negotiate amendments to the then existing agreement to better reflect the actual passenger volumes.

Based upon estimated passenger volumes and assuming a Halifax Consumer Price Index increase of 2% annually, the following payments are expected to be made by the HIAA to the HRM over the term of the agreement:

Fiscal Year	Estimated HIAA Tax Payment	Estimated % Increase
2004/05	$1,000,000	25.8%
2005/06	$1,235,026	23.5%
2006/07	$1,274,512	3.2%
2007/08	$1,320,113	3.6%
2008/09	$1,359,744	3.0%

It is not possible to project the future assessments for the property owned by the HIAA, therefore it is difficult to determine the specific Development Grant for each of the years. What is known is the Development Grant for 2003/04(old agreement) was $1,115,155 and for 2004/05 it would be $908,000.

The requirement for an annual presentation to Council will continue under the new Agreement, as the grant will be in support of the further development of the Halifax International Airport property.

BUDGET IMPLICATIONS

Based on full taxation for the fiscal year 2004/05 of $1,908,000, the Development Grant is equal to an amount of $908,000 for 2004/05. This amount is included in the HRM approved operating budget for 2004/05.

FINANCIAL MANAGEMENT POLICIES/BUSINESS PLAN

This report complies with the Municipality's Multi-Year Financial Strategy, the approved Operating, Capital and Reserve budgets, policies and procedures regarding withdrawals from and the utilization of Capital and Operating reserves, as well as any relevant legislation.

ALTERNATIVES

Council could reject the Grant recommendation. This is not recommended since the HIAA provides a vital service to not only the traveling public but also to all businesses in the HRM which depends on cargo shipments for operating and resale products. The Halifax International Airport represents a major economic, fiscal, and employment generator for the HRM . Based upon an economic impact study completed in 2003, which measured 2002 results, the Airport generated total gross output of $640 million and 7835 jobs in the Halifax area.

ATTACHMENTS

1) Appendix A -Grant Schedule

2) Letter from HIAA of January 20, 2003 requesting an extension and amendment to existing Development Grant Agreement

3) Letter of May 7, 2003 from HIAA requesting support for legislative change to base taxation on passenger volume

Additional copies of this report, and information on its status, can be obtained by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.
Report Prepared by: Reg H. Ridgley, CGA, Manager, Strategic Capital Project Support, 490-6475

Appendix A

Halifax International Airport Authority

Development Grant Formula

Grant for Fiscal 2004/05	Grant for Fiscal 2005/06	Grant for Fiscal 2006/07	Grant for Fiscal 2007/08	Grant for Fiscal 2008/09
Difference between full taxation and the sum of $1,000,000	**Difference between full taxation and the sum of $528,898 (increased by the Consumer Price Index for Halifax for the previous year) PLUS $695,550.**	**Difference between full taxation and the sum of $528,898 (increased by the Consumer Price Index for Halifax post Dec 31, 2004)PLUS $724,246**	**Difference between full taxation and the sum of $528,898 (increased by the Consumer Price Index for Halifax post Dec 31, 2004) PLUS $758,843**	**Difference between full taxation and the sum of $528,898 (increased by the Consumer Price Index for Halifax post Dec 31, 2004) PLUS $787, 247**

Commencing fiscal 2005/06, and for the term of the agreement, the actual amount paid by the HIAA shall not be less than that paid in the previous fiscal year and shall not be more than full taxation.

Should the actual passenger volumes vary by more than 10% from the Transport Canada passenger volumes upon which this agreement has been developed, both HRM and HIAA would agree to attempt, on a best efforts basis, to negotiate amendments to the then existing agreement to better reflect the actual passenger volumes.

HALIFAX
INTERNATIONAL
AIRPORT

January 20, 2003

Ms. Vi Carmichael
Municipal Clerk
Halifax Regional Municipality
PO Box 1749
Halifax, NS B3J 3A5

JAN 2 3 2003

Dear Ms. Carmichael:

HALIFAX INTERNATIONAL AIRPORT AUTHORITY

1 BELL BOULEVARD,
ENFIELD,
NOVA SCOTIA
CANADA B2T 1K2

TEL: 902.873.4422
FAX: 902.873.4750

WWW.HIAA.CA

RE: DEVELOPMENT GRANT AGREEMENT

The Halifax International Airport Authority wishes to advise that in accordance with the Development Grant Agreement, Section 3(3), between the Halifax Regional Municipality (HRM) and the Halifax International Airport Authority (HIAA), we respectfully request an extension of, and potential amendment to, the existing agreement. This agreement has been instrumental in assisting Halifax International Airport Authority to move forward on a number of essential capital improvements.

We have been in contact with Mr. George MacLellan and Mr. Dan English of the HRM and as a result of these discussions, we have been advised that Mr. Reg Ridgley has been tasked with the coordination of this undertaking. In this regard, we will be developing a proposal for Council's consideration in the near future.

On behalf of the Board of Directors of the Halifax International Airport Authority and our entire team at the Airport, I would like to take this opportunity to thank Mayor Kelly and the entire Council for their continued support. Additionally, we look forward to continuing our excellent working relationship with the staff of HRM.

Yours truly,

Reg Milley
President & CEO

cc: Dan English, HRM
Reg Ridgley, HRM
George MacLellan, HRM

TK#8517

HALIFAX INTERNATIONAL AIRPORT

Copy to Dale 5/8/03 For a response

May 7, 2003

RECEIVED MAY 07 2003 by Courier Mayor's Office

Mayor Peter Kelly
Halifax Regional Municipality
1841 Argyle Street, 3rd Floor
PO Box 1749
Halifax, NS B3J 3A5

HALIFAX INTERNATIONAL AIRPORT AUTHORITY

1 BELL BOULEVARD,
ENFIELD,
NOVA SCOTIA
CANADA B2T 1K2

TEL: 902.873.4422
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WWW.HIAA.CA

Dear Mayor Kelly:

RE: DEVELOPMENT GRANT AGREEMENT WITH THE HALIFAX INTERNATIONAL AIRPORT AUTHORITY

Halifax International Airport Authority is a significant contributor to the maintenance and expansion of economic activity in and around the Halifax Regional Municipality (HRM). Activities at the Airport generate in excess of $1.5 billion in economic benefit annually to the region. As well, the Airport community supports approximately eleven thousand direct, indirect and induced jobs.

Prior to transfer of the Airport to the community, the Municipality and the Airport Authority entered into a Development Grant Agreement for property taxes, to replace the payment-in-lieu of taxes program between the Federal Government and the Municipality. This Development Grant Agreement is structured such that the Airport pays a set amount per year in property taxes for the infrastructure which was transferred to the Authority from Transport Canada, and full taxation on any new development and assessed improvements at the Airport.

The grant provided as a result of this Agreement has assisted us in the development of long overdue improvements at Halifax International Airport. These improvements have included expansion of our international and domestic arrivals areas and the expansion of our retail and food and beverage area. In total, the Authority has invested some $58 million into airport infrastructure in the first three years of operations since the Airport has been transferred from Transport Canada. Additionally, our current strategic plan will see the Airport invest an additional $82 million in capital improvements over the next five-year period. These investments have resulted in employment in both the construction as well as the retail industries. In fact, our new retail and food and beverage concessions will see some 50-60 new permanent jobs created.

We have been working with your staff, led by Mr. Reg Ridgley, in an effort to modify and extend the current Agreement, which is scheduled to expire on March 31, 2004. In this regard, we have made considerable progress on the preparation of documentation to be presented to Council later this year, that would see amendments and an extension to the Development Grant Agreement. Mr. Ridgley's assistance and advice have been instrumental in this process.

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Although the current Development Grant Agreement has assisted us in making the investments in infrastructure required at the Airport Authority, and in remaining a cost competitive, world-class aviation complex, the uncertainty associated with the term of the Agreement is troublesome. In this regard, we would like to explore the potential of a different system of taxation.

We propose having our property taxes linked to our annual airport passenger volumes. The passenger volume approach would allow property taxes to be calculated based upon annual passenger volume. This approach has been used in the Province of Ontario, with Ottawa, London and Thunder Bay airports. As well, several other major airports are currently discussing this methodology with their municipalities.

The method is seen as a "win/win/win" situation for HRM, the Airport Authority and the traveling public. As the airport grows passenger traffic, HRM will receive additional taxation revenue. For example, the estimated passenger volume numbers for the next 5 years are anticipated to be 3,052,463 in 2003, increasing to 3,474,671 in 2007. Our passenger volume for 2002 was 2,853,778 passengers. This would result in a tax increase of 22% over the five-year period. Under this approach, we would support a floor, such that property taxes would not be less than the prior year's taxes.

The Authority's goal is to have the Nova Scotia legislation (*The Assessment Act*) changed to reflect that property taxes for the Halifax International Airport are permanently based on passenger volume. An extension of the Development Grant Agreement is being sought until such time as the legislation can be changed.

If you are agreeable to supporting this approach, I ask that your office convene a meeting with yourself, Minister Christie, Minister of Service Nova Scotia and Municipal Relations, and myself to solicit Minister Christie's support, in enabling the existing legislation to be changed, as well as explore next steps and a time frame for completion of this initiative.

I sincerely thank you for your and council's continued support of Halifax International Airport and look forward to receiving your response to this proposal.

Yours truly,

Reg. Milley

Reg K. Milley
President & CEO