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Presented by: Cathy Heron, Mayor and Kevin Scoble, CAO

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8.4

Air Services Opportunity Fund

Presented by: Cathy Heron, Mayor and Kevin Scoble, CAO

RECOMMENDED MOTION

WHEREAS the City of St. Albert has been asked to contribute \$719,000 from June 2021 through 2023 to an Air Services Opportunity Fund, to assist the Edmonton Metropolitan Region in recovering from the effects of the pandemic-related economic downturn by reversing the decline over the past 18 months in national and international air connections and in other associated services at the Edmonton International Airport;

AND WHEREAS, despite the primarily commercial purpose of an Air Services Opportunity Fund, proposed contributions to the Fund from regional municipalities have been calculated using utilizing the Edmonton Metropolitan Region Board (EMRB) Cost Allocation model which determines a municipality's proportionate share of the cost of an initiative on the basis of population and equalized assessment;

AND WHEREAS St. Albert's equalized assessment is based on more than 84% residential assessment, which is a significantly higher residential assessment base than that of many municipalities in the region;

AND WHEREAS the City of St. Albert desires development of an alternative funding model more representative of benefits received by contributing municipalities and/or potential investment recovery, in full or in part, and/or incremental benefit for Years 2 and 3 of the 3-year Air Services Opportunity Fund;

AND WHEREAS Edmonton Global has decided it will not undertake development of an alternative funding model for the Air Services Opportunity Fund;

AND WHEREAS the Council of the City of St. Albert acknowledges the position of Edmonton Global and the Edmonton Regional Airports Authority that failing to establish the Air Services Opportunity Fund with funding of \$15 Million could result in significant implications for the region's economic recovery and long-term competitiveness and growth;

AND WHEREAS the Council of the City of St. Albert has consistently supported St. Albert being a leader in initiatives aimed at economic recovery from the effects of the pandemic and strongly desires continued economic growth of the whole Edmonton Metropolitan Region;

AND WHEREAS the Council of the City of St. Albert strongly believes that when the Edmonton Metropolitan Region collectively experiences economic prosperity and growth, then all municipalities including St. Albert share in the success and benefits;

AND WHEREAS the Council of the City of St. Albert has consistently and strongly promoted intermunicipal collaboration with its fundamental belief that the region is stronger together, with the City of St. Albert possessing a long-standing reputation as a leader in developing, incubating, and operationalizing sound intermunicipal initiatives and supporting sound intermunicipal initiatives led or conceptualized by others, including but not limited to:

- a. A founding member of the Edmonton Metropolitan Transit Services Commission;
- b. A founding member of Edmonton Global;
- c. Leadership in the establishment of, and champion for, the Collaborative Economic Development initiative;
- d. Completion of one of the first urban-to-urban Intermunicipal Collaboration Frameworks in Alberta for Recreation Services; and,
- e. Establishment of innovative cost-sharing agreements for regional infrastructure projects, such as the twinning of Ray Gibbon Drive, valued at \$54 million;

AND WHEREAS the Council of the City of St. Albert supports the goal of the Air Services Opportunity Fund and is prepared to contribute St. Albert's fair share to the Fund, which remains underdetermined, with reasonable assurances that the contributions of St. Albert and other municipalities will be put to the uses intended and that the outcomes of those expenditures will be monitored on and reported back to contributing municipalities;

NOW THEREFORE BE IT RESOLVED:

1. That Council approves a contribution from the City of St. Albert to the Air Services Opportunity Fund for Year 1 (2021) in the amount of \$145,154 to be funded from the Stabilization reserve;

2. That the Chief Administrative Officer is directed to write a letter to the shareholders of Edmonton Global requesting further consideration of an alternative funding formula based on the CED framework, a commitment that not more than \$15 million in total municipal contributions will be sought for the Fund, and that municipal contributions will be reduced if financial contributions to the Fund are made by other levels of government or by the private sector;
3. That the Chief Administrative Officer is directed to bring back a report to an open Council Meeting by the end of Q1 in 2022 to make a recommendation on the City of St. Albert's second and third year contributions to the Fund.

(NOTE: The preamble clauses form part of the Motion whether or not they are read aloud in Council by the mover of the Motion)

PURPOSE OF REPORT

To receive Council direction on the level of commitment to be provided by the City of St. Albert to the Edmonton Regional Airports Authority through Edmonton Global in response to a regional request for the establishment of an \$15 Million Air Services Opportunity Fund to re-instate priority international flights at the Edmonton International Airport (EIA).

ALIGNMENT TO PRIORITIES IN COUNCIL'S STRATEGIC PLAN

Economic Development: Enhance business/commercial growth

Building a Transportation Network: Integrated transportation systems

ALIGNMENT TO LEVELS OF SERVICE DELIVERY

N/A

ALIGNMENT TO COUNCIL DIRECTION OR MANDATORY STATUTORY PROVISION

N/A

BACKGROUND AND DISCUSSION

The City of St. Albert is a founding member and shareholder of Edmonton Global, the Edmonton Metropolitan Region's economic development corporation tasked with attracting foreign direct investment to the region.

Edmonton Global was invited by the Airport Accord (City of Edmonton, City of Leduc, Leduc County and EIA) to facilitate a conversation amongst its municipal shareholders this Spring on Air Services and its importance to the regional economy and economic recovery post-pandemic. At the most recent of three resultant Air Summits hosted by Edmonton Global, on May 1, 2021, the need was identified to establish an Air Services Opportunity Fund of \$15 Million by June 30, 2021, to help incentivize airlines to re-establish direct international flights to and from the Edmonton Region as

pandemic restrictions are lifted.

As a follow-up to this, Edmonton Global, in partnership with EIA, facilitated several meetings from May 25, 2021, through June 15, 2021, with various stakeholders, including the Edmonton Region Metropolitan Board (EMRB), Edmonton Global Shareholders, Regional Chief Administrative Officers, and Municipal Councils upon request. This included a public presentation at St. Albert City Council on June 7, 2021.

Following these engagements, the final recommendations of Edmonton Global are that:

- “Regional municipalities immediately raise \$15 million, through a one-time levy spread over three years, to establish an Air Services Opportunity Fund to re-instate priority international flights. The three-year pathway would enable focus on Recovery initially, to Growth by the end of year 3.
 - 2021 - \$3 million
 - 2022 - \$6 million
 - 2023 - \$6 million
- Regional municipalities task Edmonton Global to manage the fund and develop a Governance and Accountability Framework.
- Regional municipalities take aggressive and prompt action on this issue as laid out in this briefing note’s *Critical Path*.”

At a high-level, the \$15 Million would be overseen by the professional Board of Directors at Edmonton Global, and directed to EIA, and reported on a minimum of twice a year to municipal shareholders. A Governance and Accountability Framework was approved on June 17, 2021, by the Edmonton Global Board. are still being developed with use of a third-party management consultant. As part of the framework, an independent audit of the fund will be conducted and reported back to municipal shareholders as part of Edmonton Global’s annual report.

At the May 7, 2021, EIA Annual Public Meeting, EIA shared the following impacts that the COVID-19 pandemic has had on its operations:

- The Federal Government designated four airports (Vancouver, Calgary, Montreal, Toronto) as ports of entry for international flights. EIA was not selected as one of these ports of entry. This had a significant negative impact on passenger and cargo traffic.
- Pre-COVID, EIA had 52 direct flights daily; currently there are 13 direct flights.
- In 2020, the EIA generated \$103 million in revenues. This is a \$128 million decrease from 2019 revenues.
- EIA recorded a net loss of \$89.3 million in 2020.
- 2020 Passenger demand fell by 68 percent compared to 2019. In some months, demand fell by 95 percent.
- 90 percent of revenues are tied to passenger traffic. To deal with this reduction in revenue, operations budgets were cut by \$50 million, capital spending was cut by 75 percent and

workforce reduced by 30 percent.

EIA has also indicated they will contribute up to the equivalent of \$12 Million in in-kind contributions towards incenting new flights through fee waivers.

Edmonton Global projects that the \$15 Million fund, alongside in-kind support by EIA, will result in the creation of 7,000 jobs and an economic impact on the GDP of the greater Edmonton Metropolitan Region of \$415 million.

EIA has all the same capabilities and services of the four airports currently permitted to process international flights (Toronto, Vancouver, Montreal, and Ottawa), and EIA may lose these capabilities should the region no longer have direct international flights or see reduced service. As a land locked province, air access to the Edmonton Metropolitan Region for both people and goods is essential to retain and expand existing businesses and drive investment attraction.

Air service will be re-built in a very competitive environment in a compressed timeframe. Airlines are rebuilding and concentrating their services within the largest four airports in Canada. Our region is at extreme risk of being downgraded, on an on-going basis, to a limited regional airport versus remaining an international airport with considerable connections to the rest of Canada and core flights to the rest of the world.

The cost and risk associated with air service begins with the airline's first flight. The Air Services Opportunity Fund will act as an incentive to carriers to invest in our market to lower risk in entering our market. Examples of costs that begin with the first flight include: ground handling and de-icing contracts, staffing, IT and marketing and sales support. Airlines make decisions based on local costs and balance sheets for their mobile assets. They rely on economies of scale in their profit and loss of destinations over time.

While this is an evolving initiative, the City of St. Albert has identified several concerns with aspects of the business case presented, the most significant being:

1. The allocation of funding on the basis of the EMRB cost-sharing formula and the associated absence of revenue sharing or cost recovery opportunities;
2. The governance of this initiative including accountability, transparency, and reporting; and,
3. Continued and increased advocacy to other orders of government to participate in the Air Services Opportunity Fund.

The approach identified in the recommended motion for Council's consideration is intended to reduce the City's risk in these three areas, while recognizing the sense of urgency and timeliness to support regional economic recovery.

STAKEHOLDER COMMUNICATIONS OR ENGAGEMENT

As this is not a City of St. Albert led initiative or schedule, communications and engagement with stakeholders has not been undertaken by the City. The Air Services Opportunity Fund was discussed in public at the June 7, 2021 St. Albert City Council Meeting with representatives from Edmonton Global and EIA.

At the time of this report, the following municipalities have passed motions to support the Air Services

Opportunity Fund:

- City of Edmonton: \$9.88 Million over 3 years
- City of Fort Saskatchewan: \$354,132 over 3 years (note this is different than most recent fund contribution estimate provided by Edmonton Global on June 10th per table below)
- Leduc County: \$1.5 Million over 3 years (\$1.2 Million more than requested)
- Town of Devon: \$88,915 over 3 years
- Strathcona County: \$1.45 Million over 3 years

| Municipality | % Residential Equalized Assessment | Year 1 | Year 2/3 | Total proposed by Edmonton Global | Actual/ Council Date |
|-------------------|------------------------------------|-------------|------------------|-----------------------------------|----------------------|
| Edmonton | 75% | \$1,942,014 | \$3,968,601 | \$9,879,216 | \$9.8 M Confirmed |
| Ft. Sask | 56% | \$72,141 | \$137,324 | \$346,789 | \$354K Confirmed |
| Leduc | 65% | \$77,369 | \$148,035 | \$373,439 | June 21 |
| Spruce Grove | 82% | \$79,093 | \$151,567 | \$382,227 | June 28 |
| St. Albert | 84% | \$145,154 | \$286,923 | \$719,000 | June 21 |
| Leduc County | 32% | \$69,867 | \$132,665 | \$335,197 | \$1.5 M Confirmed |
| Parkland County | 59% | \$101,632 | \$197,750 | \$497,132 | June 22 |
| Strathcona County | 52% | \$289,010 | \$581,679 | \$1,452,368 | \$1.4 M Confirmed |
| Sturgeon County | 52% | \$69,790 | \$132,508 | \$334,806 | June 22 |
| Beaumont | 93% | \$45,869 | \$83,495 | \$212,859 | June 22 |
| Devon | 86% | \$21,557 | \$33,679 | \$88,915 | \$89K Confirmed |
| Gibbons | 92% | \$15,322 | \$20,905 | \$57,132 | June 23 |
| Morinville | 86% | \$28,194 | \$47,278 | \$122,750 | June 22 |
| Stony Plain | 83% | \$42,988 | \$77,591 | \$198,170 | June 28 |
| Annual Total | | \$3 Million | \$6 Million (x2) | \$ 15 Million | \$13.2 M |

IMPLICATIONS OF RECOMMENDATION(S)Financial:

If approved, the \$145,154 can be funded from the Stabilization Reserve. This fund has an uncommitted balance as at May 31, 2021 of \$7.2M.

Legal / Risk:

At this point it is not clear on what basis the contributing municipalities will be able to ensure that funds will be put to the use intended, and to establish metrics to determine whether the funds spent are having the desired effect. This is basic due diligence in spending public money. An executed agreement addressing such matters between the participating municipalities, Edmonton Global, and the Edmonton Regional Airport Authority would be a prudent step before funds are disbursed and is recommended by the Legal Department.

Program or Service:

N/A

Organizational:

Subject to next steps from Edmonton Global, City Administration would support the development of an alternative funding model, more indicative of investment provided and benefit received and/or investment recovery.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

1. That the City of St. Albert approve total funding of \$719,000 to the Air Services Opportunity Fund, administered by Edmonton Global, with payments of \$145,154 in 2021 and \$286,923 in each of 2022 and 2023, to be funded from the Stabilization Reserve.
2. That the City of St. Albert provide no financial support to the Air Services Opportunity Fund.
3. That the City of St. Albert approve a 3-year funding commitment of an amount, other than the optional amounts provided, to the Air Services Opportunity Fund, administered by Edmonton Global, commencing in June 2021, to be funded from the Stabilization Reserve.

Report Date: June 21, 2021
Authors: Cathy Heron, Mayor
Kevin Scoble, Chief Administrative Officer