

**ICAO
NAM/CAR/SAM Regions
Airport Privatization Seminar**

**Canadian Airport Devolution
Lessons Learned**



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HISTORY OF AIRPORTS IN CANADA

1939 **Municipal airports taken over for war purposes**

1945 **Some municipalities refuse to reassume operations**

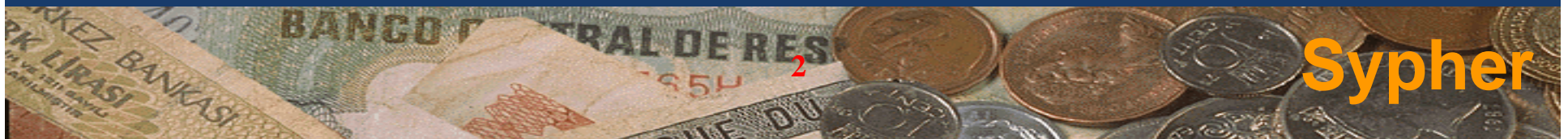
1948 **New policy**

☎ **Federal role in “main line” sites**

☎ **Encourage municipal control with subsidy**

☎ **Set safety standards**

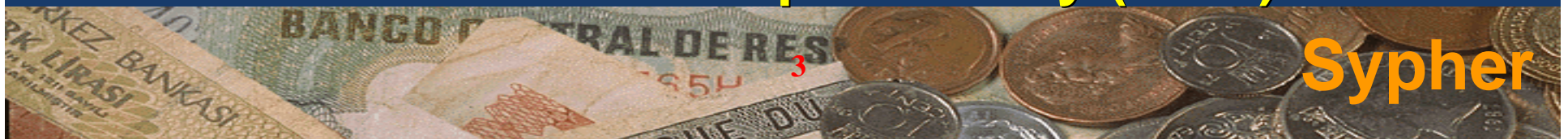
☎ **Provide support to remote sites**



HISTORY OF AIRPORTS IN CANADA

(Continued)

- 1958** Expanded role because of larger aircraft. Limit federal role in local sites
- 1965** Federal government will operate and subsidize
- 1979** Task force recommends devolution and trust fund
- 1985-87** Beginning of devolution strategy (LAA)
- 1994** National Airport Policy (CAA)



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FORMS OF TRANSFER

Initial transfer framework (1985-1992)

- ☎ Long-term lease with option to review
- ☎ Transfer to Local Airport Authorities
- ☎ Not-for-profit corporation
- ☎ Ground lease based on operating cash flow with minor adjustments for capital
- ☎ Local appointment of board
- ☎ Five international airport transferred



FORMS OF TRANSFER

(Continued)

1994 Framework

☎ Some renegotiations of LAA leases

☎ Three key categories of airports

☎ National airports (26)

☎ Long-term lease with option to renew

☎ Transfer to Canadian Airport Authority

☎ Not-for-profit corporation

☎ Ground lease based on operating cash flow with minor adjustment for capital

☎ Federal, provincial and local board members



FORMS OF TRANSFER

(Continued)

☎ Regional airports (71)

- ☎ Scheduled service but less than 2000,000E/D PAX
- ☎ Sold to local interest (provincial, municipal, private)
- ☎ One-time operating subsidy
- ☎ On-going support through ACAP
- ☎ Corporate form is determined by local interests

☎ Small airports (31)

- ☎ No scheduled service
- ☎ Transfer by sale
- ☎ If satellite can be transferred to CAA/LAA



TRANSPORT CANADA PHILOSOPHY

- ☎ **Out of operations by March 31, 2000
(transfer or close)**
- ☎ **Airports will be viable March 31, 2000**
- ☎ **Major/national airports leased on long-term basis**
- ☎ **Regional/small airports sold to local interests**
- ☎ **Government is “no worse off” financially**
- ☎ **Airport authorities are not-for-profit corporation**



TRANSPORT CANADA PHILOSOPHY

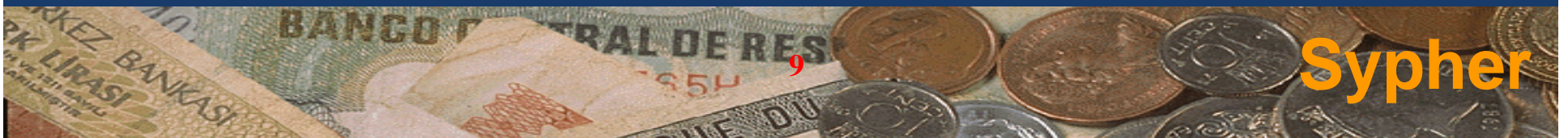
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- ☎ **Employment guarantee for two years**
- ☎ **Five year performance reviews**
- ☎ **Community consultation committee**
- ☎ **Government retains regulatory authority for safety and security standards**



THE TRANSFER PROCESS

- ☎ Negotiation had protracted timeframe
- ☎ Transport Canada inflexible
- ☎ Disagreement over Authority costs of operation
- ☎ Biggest issue is required future level of capital
- ☎ Lease form made financing difficult



THE GOOD

- ☎ **Airports have embarked on significant capital programs**
- ☎ **Improvements in capacity**
- ☎ **Improvements in passenger service levels**
- ☎ **Airports are now integral part of local economic development initiatives**



THE BAD

- ☎ **Ground rents paid are excessive and are main factor in requirement for airport improvement fees**
- ☎ **Transport Canada “changed the rules” after the fact**
- ☎ **No regulatory framework for fee increases**
- ☎ **Many regional/local airports are not viable as standalone business entities**
- ☎ **Increased fee/charges has had negative impact on travel demand**



CONCLUSIONS

- ☎ Transfer process is almost complete
- ☎ Transport Canada lease formula results in heavy financial burden at local level
- ☎ Federal government is revenue “positive” from process and transfer model used
- ☎ Future fees and charges will have to increase significantly to support required capital development



CONCLUSIONS

(Continued)

- ☎ **Ownership model needs revisiting in light of financial results and dynamics of Canadian airline industry**
- ☎ **Costs and contribution of airport sector to Federal government needs to be factored into assessment of any new models**



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