



Workable solutions to meet urgent financial needs of airports in Canadian communities

Brief for Standing Committee on Industry, Science and Technology (INDU)'s study of the Canadian Response to the COVID-19 Pandemic

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Introduction

The Canadian Airports Council (CAC) welcomes the opportunity to share perspectives and workable solutions from airports across the country for the Standing Committee on Industry, Science and Technology (INDU)'s study of the Canadian Response to the COVID-19 Pandemic.

We thank the Government of Canada, members of the opposition and the public service for their work to help Canadian individuals and organizations endure the COVID-19 pandemic. Specifically, we would like to thank the government for quickly putting in place ground lease rent relief — which has helped Canada's larger airports with immediate cash flow. We also appreciate the Canada Emergency Wage Subsidy (CEWS), which has allowed about half our 53 member airports to avoid some layoffs, despite the grounding of most flights and near elimination of passenger traffic.

The CAC would like to put forward four solutions for your consideration that would help position airports for the eventual economic recovery — extended rent relief, interest-free loans, loan or bond guarantees, and funding for small airports in Canadian communities.

The reality on the ground

As you know, Canada's airports are an essential part of our transportation network. Airports not only act as gateways to our cities, but they also enable economic development in communities large and small, facilitate trade and immigration, and bring visitors to Canada's \$90 billion tourism sector.

Prior to the pandemic, Canada's airports supported nearly 200,000 jobs, resulting in \$13 billion in wages and \$7 billion in taxes to all levels of government. Along with our airline partners, Canada's airports have seen a tremendous drop in traffic and revenues since this crisis began. In April alone, passenger volume was down by more than 90 per cent from normal levels; airports that normally see 5,000 passengers a day may now only see 100 or fewer. Despite revenue losses estimated at more than \$2 billion, airports must remain open to safely move goods, essential workers, and facilitate medevac, maintain access to rural communities and other important services for Canada's economy.

From every region of the country, our members have told us that without support now, they will be forced to raise fees for travellers, reduce operations, cut jobs, and take other drastic actions at a time when we should be planning for economic recovery. Many airports are in imminent danger of breaching debt covenant provisions, triggering solvency concerns. Moreover, we do not expect a recovery in our sector for many years.

Despite the hardship created by COVID-19, airports are preparing to restart some operations when travel restrictions are lifted. They are also engaging with federal officials to look into

innovative ways and provide consistency nationally to ensure the health and safety of travellers when public health officials indicate it is safe to fly again. With targeted and sufficient government support, airports will be able to weather the turbulence of the pandemic crisis and generate economic growth and recovery when the worst is behind us.

Addressing the gaps in existing government supports

Airports support the wide-ranging and swiftly-implemented support programs announced since the COVID-19 crisis began. However, without additional measures, many airports will need to raise rates and charges to cover costs of operations against reduced revenue and increased debt service costs associated with borrowing their way through the COVID crisis:

- The **Canada Emergency Wage Subsidy (CEWS)** has allowed many airports to avoid some layoffs that they otherwise would have had to make and airports appreciate that the program has been extended. However, dozens of municipal and regional airports across Canada cannot access CEWS, as they are owned and operated by municipal, territorial or provincial governments.
- The **Large Employer Emergency Financing Facility (LEEFF)** only applies to the four busiest airports in Canada with more than \$300 million in pre-COVID annual revenue. The program is not helpful to these airports as they currently have access to additional credit at much more favorable rates than this “program of last resort” would provide.
- **Business Credit Availability Program (BCAP) loans** also would dramatically increase airport debt loads at a time when they must preserve cash to survive. Swift recovery in the aviation sector is unlikely due to ongoing domestic and international travel restrictions.
- **Canada Emergency Commercial Rent Assistance** is being reviewed by airports. While it may still be helpful to some, most airports have already reached rent deferral agreements with their major tenants.

All the while, airports have fixed costs, including safety, security and maintenance costs that cannot be cut in proportion with the reduction in revenues, leaving airports in increasingly difficult financial situations. Most of the revenue from Airport Improvement Fees and Passenger Facility Charges, which normally finance much of an airport’s capital costs associated with essential upkeep, has evaporated.

If Canadian airports are overburdened with incremental debt and eroded lines of credit when growth returns, our ability to make mandatory investments and promote economic recovery, both direct and indirect, will be severely compromised. In the absence of incremental support, many airports will be required to raise fees.

Immediate solutions to help airports through the pandemic

The CAC has put forward several workable solutions the government could implement to directly support Canada's airports and ensure these critical connections to our communities remain viable.

1. Extending the waiving of ground lease rent/gross revenue charge for at least five years would:

- Provide direct relief for 22 privately-operated airports across Canada (National Airports System airports and Ports Toronto's Billy Bishop Airport);
- Preserve cash, enabling airports to focus funds on operating costs, critical capital and continued employment of staff;
- Lower operating costs and further shore up liquidity;
- Help with the remediation of meeting debt covenants;
- Provide more cash flow to help pay off additional debt acquired during the pandemic.

2. Interest-free loans would:

- Preserve jobs, stabilize and preserve borrowing capacity to allow airports to respond when passenger volumes rebound;
- Provide direct, immediate support for liquidity;
- Enable airports to cope with the financial implications of ongoing travel restrictions while protecting against both revenue erosion and bad debt from tenants and carriers;
- Support airports in minimum investment requirements to meet safety, security and regulatory obligations both during the pandemic and during the subsequent recovery.

3. Loan or bond guarantees and preferred payment designation for airport lenders would:

- Enable airports to avoid action by creditors until passenger activity levels return to profitable levels;
- Ensure covenant breaches would not cause reversion to lenders;
- Substitute for operating, maintenance and debt service reserves required by Master Trust Indentures; ensure airports stay onside with Trust Indentures;
- Relieve current cash pressure caused by existing debt obligation;
- Be viewed as a positive step by lenders, creditors and bondholders as a sign of ongoing liquidity;

- Possibly be required to access additional borrowing capacity as liquidity erodes and covenants are breached;
- Ensure airports can continue to access funds for critical capital investments and operations.

Medium-term solutions to set airports up for a successful recovery

The CAC is also urging the government to take several critical steps to set the stage for airports to help fuel the eventual recovery, including:

1. Stimulus for the Canadian tourism ecosystem:

- Restoring the Canadian tourism ecosystem will require strength across the value chain; support for airports is equally as important as support for other participants, such as airlines.
- Tourism and marketing stimulus would incent demand; fueling passenger growth and associated revenue increases for all participants.
- Stimulus support for the travel ecosystem will translate to economic support for surrounding communities through job creation and sourcing of goods and services.
- Innovation in the processes associated with international travel, such as facial recognition and other technologies to improve security and border processing, and offerings like duty free on arrival from international flights to broaden revenue opportunities.

2. Access to capital for regulatory, security and efficiency projects:

- Eroded revenue, fixed expenses and debt servicing costs will cause airports to struggle with base investment during and after recovery.
- Access to capital would provide support for required investment in critical maintenance, security and regulatory projects.
- Capital would support the required investment for COVID adaptations, including social distancing, electronic authorizations, health screening and other industry evolutions.

3. Small airport operations and infrastructure funding:

- Airports with low passenger volumes are challenged to meet operational and capital needs under normal operating conditions with typical operating revenues.

- Expansion of existing programs would simplify access to relief for small Canadian Airports (Expanded funding for the Airports Capital Assistance Program, National Trade Corridor Program Expansion, new funding streams).
- Small airport funding would ensure access to cash for operations and critical infrastructure projects.
 - Secure funds to support critical services including police, MEDEVAC, emergency, supply, rural and military flights.
 - Support infrastructure maintenance and lifecycle replacement necessary for safe and efficient operations.

Airports as vehicles for an innovative recovery

While airports need assistance to survive this crisis, CAC members are also thinking ahead to how we can help drive the national economic recovery and get people flying again when public health officials indicate it is safe to do so. Restoring confidence in the travelling public will be crucial for a return to economic prosperity, not only for the aviation sector but also for our partners in tourism. That means working together and with our international partners to find the best innovations and protocols to ensure people feel safe and secure during their travel experience — from the airport to their final destination. Canada's airports stand ready to drive this effort.

Airports not only contribute to the vitality of local economies, but they also employ tens of thousands of Canadians, facilitate the movement of essential cargo and supplies, and enable tourism and international trade. We are eager to work with the government to help reignite the Canadian economy and revitalize our battered industry and believe we can emerge from this pandemic even stronger than before.

We would welcome the opportunity to further discuss with committee members how the solutions put forward by Canada's airports can help fuel the economic recovery.

Summary of recommendations

Immediate solutions to help airports through the pandemic

1. Address gaps in existing programs for airports.
2. Extend the waiving of ground lease rent.
3. Interest-free loans.
4. Loan or bond guarantees and preferred payment designation for airport lenders.

Medium-term solutions to set airports up for a successful recovery

5. Stimulus for the Canadian tourism ecosystem.

6. Access to capital for regulatory, security and efficiency projects.
7. Small airport operations and infrastructure funding.

About the Canadian Airports Council

The Canadian Airports Council (CAC), a division of ACI-NA, is the voice of Canada's airports. We work to ensure that Canada's airports have the regulatory and operational tools they need by advocating for policies that strengthen the ability of Canada's airports to serve their travellers and communities.

The CAC has 53 airport operator members representing more than 100 airports, including all of the National Airports System (NAS) airports and most passenger service airports in every province and territory. CAC members handle virtually all of the nation's air cargo and international passenger traffic and 90 per cent of domestic passenger traffic.

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