

**Written Submission for the Pre-Budget Consultations in
Advance of the 2021 Federal Budget**

Submitted by: The Calgary Airport Authority

August 7, 2020



The Calgary Airport Authority recommends that the Government of Canada:

Recommendation 1:

Extend forgiveness of future ground lease rent payments for The Calgary Airport Authority, and Canada's National Airport System airports, to 2024 when airport revenues are expected to recover from the impacts of COVID-19.

Recommendation 2:

Provide appropriate funding in the form of interest free loans to support The Calgary Airport Authority's West Runway Rehabilitation project.

Recommendation 3:

Provide appropriate funding in the form of interest free loans to support The Calgary Airport Authority's Centralized Pre-Board Screening project, which will allow the Calgary Airport to adopt modernization efforts for safe and healthy screening and adapt to the new realities of COVID-19.

Introduction

The Calgary Airport Authority (CAA) is a key and critical enabler to Alberta's and Canada's economy. The Calgary airport is one of four Canadian airports designated to receive international travel during the COVID-19 pandemic, evidencing its importance to the Canadian airport system.

In 2019, CAA contributed over \$8 billion to Alberta's GDP and employed, directly and indirectly, approximately 50,000 Albertans.

With the catastrophic reduction in air travel since the COVID-19 crisis began in Canada, CAA has been facing a devastating erosion of revenue while ensuring safe and secure airport operations.

In June 2020, CAA saw a 91% decline in passenger traffic and expects an overall 64% drop in passenger traffic for the 2020 fiscal period and extended recovery period, with passenger numbers only returning to 2019 values after 2024. Our current projections suggest an erosion in 2020 revenue of \$245M for CAA, with a subsequent reduction of \$127M in net earnings and an \$83M erosion in cash balances as of December 31, 2020.

Since March 2020, CAA has taken decisive action to reduce costs and capital spending, implementing spending governance and executive and leadership pay cuts. However, even with these actions, the sudden and dramatic downturn in travel and revenues has significantly impacted CAA's operations.

We acknowledge the Federal Government programs and support measures introduced thus far - including the forgiveness of Canada Ground Lease rent for National Airport System airports to December 2020 and the Canada Emergency Wage Subsidy (CEWS). These programs have provided needed relief for CAA.

CAA is seeking to work with the Federal Government to make the necessary investments to ensure cross border and international air travel can reopen and that all air travel is healthy, safe and secure. We believe it is essential for the airport to work with the government in a common cause. We work towards ensuring a successful recovery for the airport and the businesses in Calgary and Alberta - including the travel, tourism and hospitality sectors - that are reliant on the airport for economic growth.

As outlined in this submission, CAA will collaboratively work with the Federal Government to pursue incremental support through extended rent relief and access to capital for shovel ready projects. Funding received will be reinvested in essential airport operations to ensure safe travel during this unprecedented health crisis.

Recommendation 1:**Extend forgiveness of future ground lease rent payments for The Calgary Airport Authority, and Canada's National Airport System airports, to 2024 when airport revenues are expected to recover from the impacts of COVID-19.**

CAA has expressed its gratitude to the Federal Minister of Finance, the Hon. Bill Morneau, and the Federal Minister of Transport, the Hon. Marc Garneau, for announcing that the Federal Government will waive ground lease rents from March 2020 through to December 2020 for CAA and other Canadian airports.

The waiving of ground lease rents during this public health crisis was a significant first step in ensuring our airport's viability.

CAA has paid \$687 million of rent under the ground lease with the Government of Canada since 1992, including payment of \$44 million in 2019, representing 12% of annual revenues. With the catastrophic decrease in our revenues in 2020, the Canada Lease rent payment waiver will contribute approximately \$10.5 million to our financial position.

CAA seeks continued support from the Federal Government through extended forgiveness of future rent payments to 2024 when we estimate our revenues to recover. In turn, CAA is committing to reinvest any savings incurred for the airport in airport operations to implement all necessary measures to ensure safe travel for passengers and our airline partners and to cover the significant fixed costs associated with operating airport infrastructure, regardless of the level of passenger traffic. These additional measures – increased cleaning, sanitation, screening – are required and come at a substantial cost. The rent relief would assist CAA in ensuring these necessary investments in health and safety are made without adding financial burden to the airport.

Shovel Ready Projects

To address immediate and significant impacts of the COVID-19 Pandemic, CAA is pursuing federal government assistance in accessing capital for shovel ready projects.

In the form of interest-free or preferential rate loans, the federal assistance would fund two critical shovel-ready capital projects. The aid would help result in the employment of hundreds of Albertans and contribute to Calgary and Alberta's recovery efforts.

The projects, outlined below, include the West Runway Rehabilitation and the implementation of centralized pre-board screening. We estimate these projects would provide approximately 570 Direct full-time jobs and 1,100 total full-time jobs for Albertans. Both projects ensure that the airport can meet the challenges of COVID-19 and make needed investments in providing a safe, fully operational airport now and in the future.

Recommendation 2:

Provide appropriate funding in the form of interest free or preferential rate loans to support The Calgary Airport Authority's West Runway Rehabilitation project.

CAA has an immediate need to begin work on its planned West Runway Rehabilitation project. The project addresses rehabilitation of CAA's critical West Runway which was initially constructed in 1977 and is reaching the end of its useful life unless rehabilitated. It is anticipated that this project will take two-three years to complete, cost approximately \$150 million and create 200 – 300 quality jobs for Albertans.

As noted, CAA has experienced a devastating deterioration in passenger traffic. This decline in passenger traffic has resulted in a significant impact on CAA's cash flow. Based on CAA's latest cash forecast, CAA will not be able to fund the West Runway Rehabilitation capital project and instead will pay financing costs from additional debt taken on from COVID-19.

Despite expected short-term erosion of passenger traffic (three-five years), the West Runway Rehabilitation project is a multi-year project which must be addressed immediately to ensure CAA is not capacity constrained and is able to meet the demands of passenger and cargo traffic over the next 40 years.

If CAA is unable to rehabilitate the west runway on time, much is at risk. Without the rehabilitation, the west runway could be forced to close, leaving only one main runway at the Calgary Airport. Runway closure would impact domestic and international airlines, including WestJet, which uses CAA as its operational hub, and air cargo companies, which use CAA as the primary cargo hub in Alberta. Should the

West Runway Rehabilitation not move forward, CAA is at risk of airlines and air cargo companies reducing their usage of the Calgary airport. These reductions would have significant negative economic impacts on CAA and the City of Calgary.

The West Runway Rehabilitation project will be developed with environmental sustainability at the forefront, leveraging such practices as progressive recycling and conversion to LED technology. CAA intends to recycle and re-use the existing pavement structure, with a maximum of 5% of existing materials being disposed to the landfill. The replacement of the existing runway electrical system with energy-efficient LED technology will create a safer maneuvering environment for pilots while decreasing carbon dioxide greenhouse gas emissions by 36 tonnes annually.

Nav Canada endorses this project, and it is critical to CAA's ability to continue providing a safe and secure airport to the benefit of our region and province.

CAA asks members of the Finance Committee to recognize the pressing need of this project and recommend that the Government of Canada work with CAA to provide appropriate funding.

Recommendation 3:

Provide appropriate funding in the form of interest free or preferential rate loans to support The Calgary Airport Authority's Centralized Pre-Board Screening project, which will allow the Calgary Airport to adopt modernization efforts for safe and healthy screening and adapt to the new realities of COVID-19.

CAA has been preparing for centralized pre-board screening at the Calgary airport, which will serve to streamline the security screening process and benefit air passengers and our airline partners. The project, which will cost \$30 - \$35 million and create 70 Direct full-time jobs and 140 total full times jobs (direct and indirect), would also be an essential tool in providing the accommodations necessary to reduce the risk of COVID-19 transmission. These accommodations include new regulatory requirements to monitor temperature and to ensure physical distancing at security checkpoints and will facilitate the introduction of increased sanitization and biometric capabilities, now critical to ensure a safe and healthy screening experience.

Due to the impact COVID-19 has had on airport revenues and passenger traffic, CAA requires government assistance to move forward with the centralized pre-board screening project. Not moving forward would directly impact CAA's ability to process passengers promptly and in a safety and health manner, during and after the pandemic, using technologically advanced equipment with sanitization and biometric capability to assure the safe and healthy screening of passengers.

CAA is committed to reinvesting savings from further forgiveness of ground lease rent in moving this project forward. CAA also seeks the Federal Government's

assistance in ensuring this vital project can proceed and provide any additional funding, in the form of low-interest or preferential rate loans, to allow construction to begin to facilitate the healthy and safe screening of passengers at the Calgary airport.

Conclusion

CAA is confident that these recommendations will serve as effective and sustainable solutions for the near and long term.

Extended forgiveness of future ground lease rent payments for CAA and Canada's National Airport System airports to 2024, capital for CAA's West Runway Rehabilitation project, and funding for a Centralized Pre-Board Screening project are vital for the airport's continued viability as a provider of essential and safe operations.

CAA looks forward to furthering discussion and continued collaboration with the Federal Government on these measures. In working together, we can succeed in implementing successful solutions to mitigate the detrimental effects of this unprecedented crisis.