CANADA'S REGIONAL AIRPORTS

GETTING THE FUNDING BALANCE RIGHT

Canada is home to 570 certified aerodromes, all but a dozen of which handle fewer than one million passengers a year. These regional airports play an essential role in Canada's air transportation sector. Those with traffic volumes below approximately 600,000 passengers a year can find it difficult to raise enough revenue to support the maintenance and upkeep of their safety and security infrastructure.

570 certified aerodromes

IMPORTANCE OF SMALL AIRPORTS TO THE COMMUNITY AND LOCAL ECONOMY

As the world's second-largest country by area, aviation has been at the heart of Canada's transportation strategy since the early days of air mail. Today, some 126 million passengers a year pass through Canada's airports—more than 18 million through medium and small airports—with scheduled commercial passenger service that connects Canada from coast to coast.

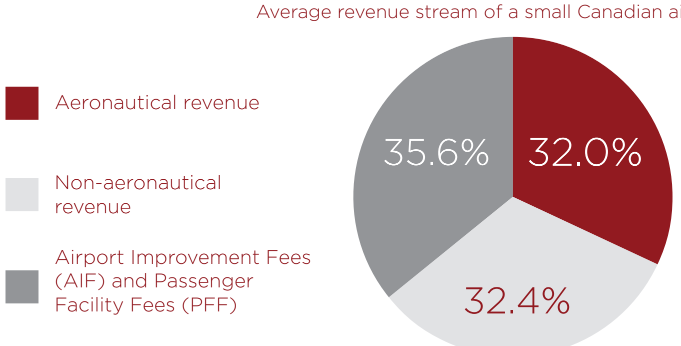
More than **18 million** passengers pass through Canada's medium and small airports annually

But while smaller airports play just as important a role in linking their communities to the rest of Canada and the world, lower traffic volumes can present challenges for these airports to cover the costs of their operations as well as needed upgrades.

HOW AIRPORTS ARE FUNDED

Under Canada's National Airports Policy, airports are generally responsible for covering the costs associated with operations and maintenance. Airports have three main sources of revenue available to them:

Average revenue stream of a small Canadian airport



- Landing fees and other charges to air carriers, known as aeronautical revenue
- Non-aeronautical revenue from retailers, services, real estate development and other businesses
- Airport Improvement Fees (AIF) and Passenger Facility Fees (PFF) charged to passengers and dedicated to capital improvement projects and operations

Lower traffic volumes have a direct impact on air carrier revenue, but also on non-aeronautical revenue as fewer people travelling through an airport means fewer people to shop or eat in the airport's service businesses.

AVAILABILITY OF CAPITAL FOR CANADA'S SMALLER AIRPORTS

Generally, the transfer of airports in Canada to local airport authorities and communities has been a good story. Canada's airports are fulfilling their mandates to build and maintain their infrastructure in a manner that is financially self-sustaining overall. However, while larger airports have been able to fund capital projects through AIF, smaller airports with low traffic volumes have challenges in doing so as they do not enjoy the economies of scale of their larger counterparts.

Airports generally have high fixed costs and revenue that is directly related to the nature and volume of air traffic. In fact, airport expenditures can be viewed as occurring in four sets:

The cost of operating mobile equipment

The cost of restoration projects to maintain buildings and airside surfaces

The cost of large capital expansion projects to meet growing demand

The cost of large capital expansion projects to facilitate growth in air services

Airports also regularly deal with unfunded mandates, which are capital projects mandated by new federal regulatory requirements for valid safety or security reasons but nevertheless without any government funding to pay for them.

Only airports with sufficient traffic levels are able to cover all four of these categories through their own revenue streams. Many smaller and remote airports cannot cover the first set of expenditures. As such, it is clear that small and medium-sized airports require some level of capital assistance that is primarily dependent on the scale or the traffic handled at that facility.

CANADA'S SIX SMALL NATIONAL AIRPORTS SYSTEM (NAS) AIRPORTS AND AIRPORT RENT

Canada has 26 airports designated as National Airports System airports, including 22 operated by private, non-share capital airport authorities. Ownership of NAS airports is retained by the federal government, which levies rent but shoulders no financial responsibility for airport operations, maintenance or capital improvement programs.

> ***"As a general rule, airports within the NAS system will be required to become self-sufficient (operating and capital costs), beginning 5 years from April, 1995. However, for certain NAS airports it is recognized that under-capitalization in the past and future capital requirements may result in adjustments in this principle."*** **- Canada's National Airports Policy, 1994**

Six of these airports handle passenger volumes of fewer than 600,000 and face similar challenges raising money as other airports their size. As NAS airports on federal land, however, they also have to pay rent—essentially a tax on gross revenue at the airport. London International Airport and Prince George Airport together paid about $225,000 in 2014. The airports in Charlottetown, Gander, Fredericton and Saint John all are scheduled to begin paying rent in 2016.

In addition to rent, by virtue of being situated on federal land, NAS airports are explicitly excluded from participation in two important federal infrastructure programs: Building Canada and the Airports Capital Assistance Program (ACAP).

AIRPORTS CAPITAL ASSISTANCE PROGRAM (ACAP)

ACAP was created in 1994 to assist airports with financial projects related to safety, asset protection and operating cost reduction. The government recognized that airports with less than 525,000 passengers would require access to some varying levels of financial assistance in order to maintain safe and secure airport infrastructure for the travelling public.

Today, approximately 200 regional and local airports are eligible for ACAP funding which has been capped at $38 million a year despite inflation. ACAP projects are funded in three priority categories:

Overall, approximately 200 regional and local airports are eligible for ACAP funding today, which has been capped at $38 million a year

1ST PRIORITY:

Safety-related airside projects such as rehabilitation of runways, taxiways and aprons, and aircraft firefighting.

2ND PRIORITY:

Heavy airside mobile equipment and safety-related items such as runway snowblowers, snowplows and runway sweepers.

3RD PRIORITY:

Air terminal building/groundside safety-related considerations such as sprinkler systems, asbestos removal and barrier-free access.

Through the evolution of safety regulations, technological advances and inflation, the amount of money provided through ACAP is no longer sufficient to meet the needs of airports if the program is to be applied in a manner consistent with its original intent.

Furthermore, inequities built into the eligibility criteria have excluded the six small NAS airports that otherwise would be eligible from accessing ACAP funding.

SEEKING CHANGE

The CAC is seeking a change to infrastructure funding eligibility criteria that would allow NAS airports to apply for funding on an equal basis as other modes of transportation and other sectors of the economy.

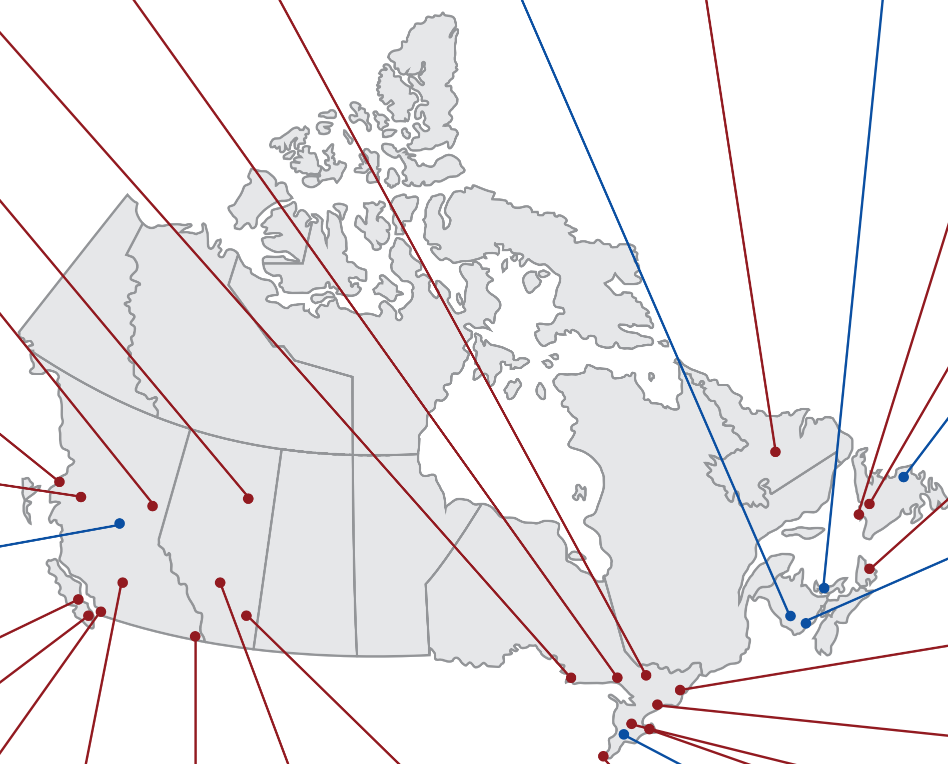
The CAC is seeking:

- **A change to ACAP program eligibility to allow NAS airports to apply for funding under the same conditions as non-NAS airports.**
- **Program changes to improve the application process for eligible airports, including better communication and transparency in how decisions are made.**
- **Increases in funding to $70 million a year for currently eligible airports and an additional $7 million to meet the needs of six additional NAS airports once these are allowed to participate in the program.**

BUILDING CANADA

Building Canada, the federal infrastructure funding program, has been allocated $4 billion in spending through the National Infrastructure Component of the fund. While it includes a category for regional and local airports through which some airports have received funds, all NAS airports are excluded by virtue of being located on federally owned land.

CAC Regional and Small Airports (Non-NAS) and Six Small NAS Airports Ineligible for ACAP Funding



		2014 Passengers
YMM	Fort McMurray Airport Authority	1,308.416
YAM	Sault Ste. Marie Airport Development Corporation	195,080
YSB	Greater Sudbury Airport	230,233
YYB	North Bay Jack Garland Airport	66,171
YFC	Fredericton International Airport	316,888
YYR	Goose Bay Airport Corporation	95,000
YYG	Charlottetown International Airport	317,827
YJT	Stephenville International Airport	N/A
YDF	Deer Lake Regional Airport	336,789
YXJ	North Peace Regional Airport	252,729
YQX	Gander International Airport	144,000
YPR	Prince Rupert Airport	64,956
YQY	Sydney Airport Authority	199,655
YXT	Northwest Regional Airport	253,368
YSJ	Saint John Airport Inc.	248,820
YXS	Prince George Airport	445,929
YGK	Kingston-Norman Rogers Airport	67,600
YQQ	Comox Valley Airport Commission	318,830
YTZ	Billy Bishop Toronto City Airport	2,400,000
YCD	Nanaimo Airport	270,400
YXX	Abbotsford Airport Authority	477,087
YKA	Kamloops Airport Ltd.	312,895
YXC	Canadian Rockies International Airport	128,941
YQF	Red Deer Airport	25,819
YXH	Medicine Hat Municipal Airport	34,039
YQG	Windsor International Airport	252,223
YXU	London International Airport	476,617
YKF	Region of Waterloo International Airport	145,500
YHM	Hamilton International Airport	332,378

For more information about Canada's airports, please visit www.canadasairports.com

About the Canadian Airports Council (CAC) - The Canadian Airports Council, a division of Airports Council International - North America, is the voice for Canada's airports community. The CAC's 48 members represent more than 100 airports, including all of the privately operated National Airports System (NAS) airports and many municipal airports across Canada. CAC members handle virtually all of the nation's air cargo and international passenger traffic, and 95% of domestic passenger traffic

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