



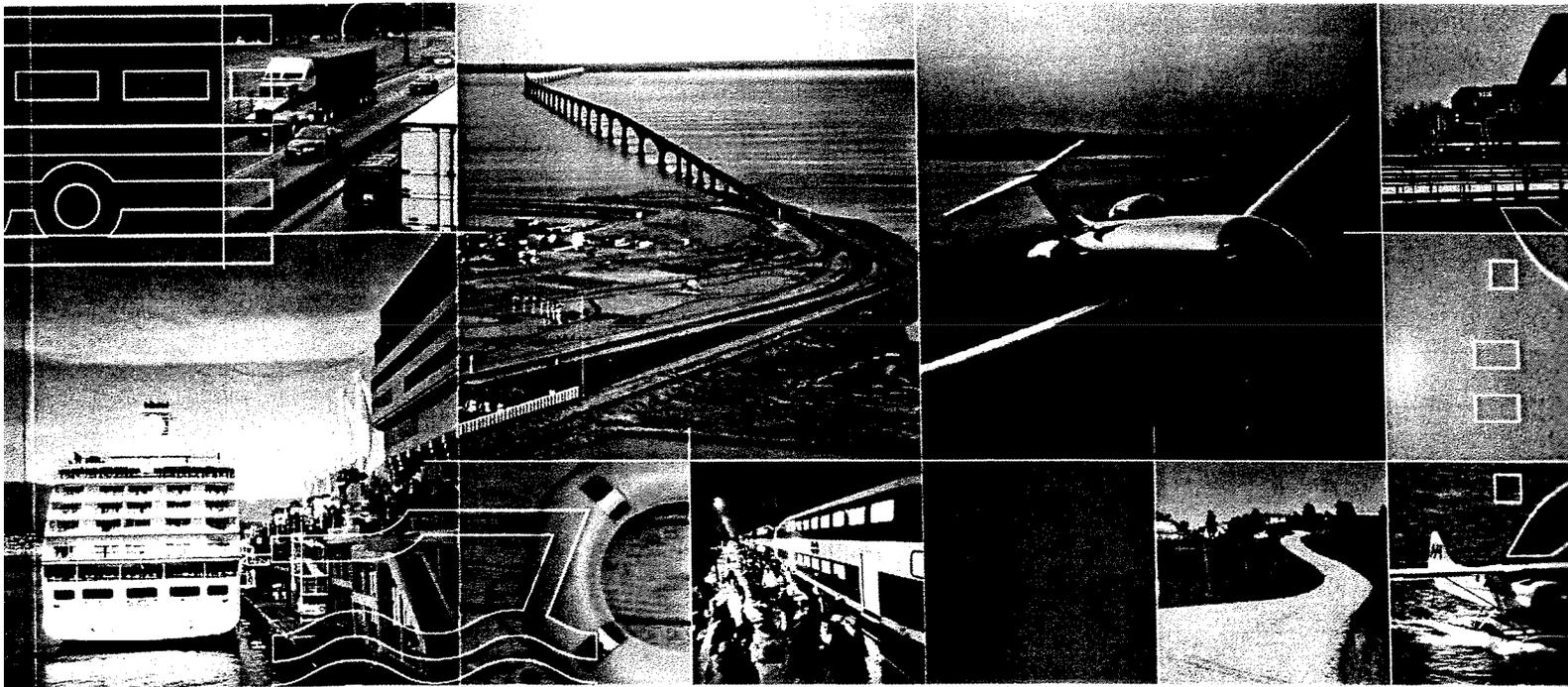
Transport
Canada

Transports
Canada



TP 14283B
(08/2004)

Regional and Small Airports Study



Canada 



Place de Ville
Ottawa
K1A 0N5

Your file / Votre référence

Fax (613) 998-5008 / Télécopieur (613) 998-5008

Our file / Notre référence

29 SEP. 2004

Mrs. Sally Beaven
Peace River Airport
Box 6600
Peace River, Alberta
T8S 1S4

Dear Mrs. Beaven:

**Re: Federal Study on Regional and Small Airports
Final Report**

In 2003, Transport Canada committed to conduct a study of the financial situation at regional and small airports that had been divested by the federal government since 1994. Please find enclosed a copy of the final report.

Over 90 operators of divested airports, mostly municipalities, were contacted and 70% participated in the study. Briefly, the study found that divestiture, in and of itself, has had a neutral or positive effect on the financial state of these airports. The great majority of airports that were in a deficit position at the time of transfer have been able to significantly reduce that deficit, or even generate a surplus since divestiture.

The study found that airports currently experiencing operating deficits almost all have the same obstacle. They lack a sufficient potential passenger base to attract or support significant air carrier service. There is a lack of users to support the level of airport facilities and services maintained. The demography of each catchment area, such as population, income and industry has a direct bearing on the operational and financial opportunities available to airport operators.



.../2

In cases where airports are continuing to experience difficulty in covering their costs, a number of options suggest themselves. Airport operators could further rationalize airport infrastructure and services to match demand, increase user fees, or implement a combination of these measures. Additionally, other jurisdictions which benefit from these airports may choose to offer financial support.

You will note that the report includes only aggregate data, so that the confidentiality of the information submitted by airports is maintained. It was agreed at the beginning of the process that any information provided for this study would be kept confidential. For your information, I have enclosed a copy of a Fact Sheet for your airport that outlines the information used as part of the study.

As we move forward, Transport Canada will ensure that our findings are fully disseminated to stakeholders, provincial and territorial partners, and other government departments and agencies who have an interest in transportation issues, such as the Rural Secretariat.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'R. Sully', with a long horizontal flourish extending to the right.

Ron R. Sully
Assistant Deputy Minister
Programs and Divestiture

Enclosures

Peace River, Alberta

FACT SHEET

Financial information submitted for an application to the Airports Capital Assistance Program was the source of all financial data used in the study for this airport.

Study Classification:

Peace River has been categorized as an airport covering its operating costs before any subsidy and/or transfers to reserves.

Passenger & Aircraft Movements (data is preliminary):

	2002	2001
E/D passengers	15,409	19,811
Aircraft Movements	12,735	14,601

Revenues

	2002	2001
Aeronautical Revenues	465,150	530,811
Non-aeronautical Revenues	97,060	134,115
TOTAL	562,210	664,926

Expenditures

	2002	2001
Salaries & Wages	190,126	184,667
Operating Costs	375,163	285,267
TOTAL	565,289	469,934

Catchment area

- The population of the catchment area decreased by 4% between 1996 and 2001. The total population in 2001 was 34,059.
- The percentage of senior citizens of 8.2% is below the average.
- The employment level of 52.3% is above the average of the catchment areas of the airports studied.
- The tertiary and quaternary sectors at 58.1% of employment are a source of employment below average.
- The average individual income of \$21,160 and the average familial income of \$60,991 are average.

Other Information

- Grande Prairie Airport, which is located 181 km from Peace River, is the closest airport offering alternate scheduled passenger flights, at a better level. Grande Prairie also offers discount carrier services. Edmonton International, the closest NAS airport, is located 514 km from Peace River.
- Peace River receives inter-city bus service.

REGIONAL AND SMALL AIRPORTS STUDY

**TRANSPORT CANADA
JULY 2004**

REGIONAL AND SMALL AIRPORTS STUDY

Table of Contents

	Page
<u>EXECUTIVE SUMMARY</u>	5
INTRODUCTION	5
FINANCIAL OBSERVATIONS	6
NON-FINANCIAL OBSERVATIONS	6
CONCLUSIONS	7
<u>INTRODUCTION</u>	8
BACKGROUND	8
OBJECTIVES AND SCOPE OF THE STUDY	9
AIRPORT PARTICIPATION	9
DATA LIMITATIONS	11
METHODOLOGY	11
<u>GENERAL OBSERVATIONS</u>	14
AIRPORT CLASSIFICATION	14
FINANCIAL	15
NON-FINANCIAL	15
<u>FINANCIAL ANALYSIS</u>	17
LEVEL OF ACTIVITY	17
RUNWAYS AND CRITICAL AIRCRAFT	21
CAPITAL FUNDING	22
<u>NON-FINANCIAL ANALYSIS</u>	24
CATCHMENT AREA	24
DISTANCE FROM OTHER AIRPORTS	31

<u>IMPACT ON COMMUNITIES</u>	34
TRANSPORT CANADA PERSPECTIVE	34
AIRPORT OPERATOR PERSPECTIVES	35
LOCAL GOV'T AND CHAMBERS OF COMMERCE PERSPECTIVES	36
<u>TERRITORIAL AIRPORTS</u>	38
<u>GLOSSARY</u>	40
<u>OTHER EXTERNAL STAKEHOLDER VIEWS</u>	47

APPENDIX A - AIRPORT OPERATOR VIEWS

APPENDIX B - OTHER EXTERNAL STAKEHOLDER VIEWS

EXECUTIVE SUMMARY

INTRODUCTION

The federal government's National Airports Policy (NAP, 1994) provided a framework that defined the federal government's role regarding airports. While the federal government would retain ownership of the National Airports System (NAS), Regional/Local and Small airports were to be divested to local entities. With the exception of transition arrangements and possible contributions from the Airports Capital Assistance Program (ACAP), airports were expected to be financially independent.

As a result of air industry changes over the past few years, regional and small airport operators have expressed concerns regarding their ability to sustain and operate their airports effectively over the long term. These concerns include insufficient revenues to cover operating expenses, the financial impact of evolving regulations, limited sources for funding non-safety capital projects, and the volatile nature of air services to smaller communities.

Transport Canada undertook to complete an analysis of airports outside the National Airports System (NAS) that have been transferred to date.

Using data collected from audited financial statements and questionnaires received from airports, the study's objective was to identify systemic drivers and key factors that influence the current and future financial state of regional and small airports and understand the impact of divestitures on the communities served by these airports.

Information was collected for sixty-six of the ninety-three airports targeted for this study (71%). Provincial / Territorial participation was as follows:

	Airports Transferred	Airports with data available	Percentage of Participation
Alberta	7	5	71%
British Columbia	22	12	55%
Manitoba	8	8	100%
New Brunswick	3	3	100%
Newfoundland	4	3	75%
Nova Scotia	2	2	100%
Nunavut	2	2	100%
Northwest Territories	5	5	100%
Ontario	22	16	73%
Québec	11	6	55%
Saskatchewan	6	3	50%
Yukon	1	1	100%
TOTAL	93	66	71%

Most of the responding airports provided audited financial information. Developing comparable summaries, however, was difficult due to the different governance structures and accounting treatments adopted by these airport operators.

FINANCIAL OBSERVATIONS

The financial analysis of the airports that provided audited financial statements indicates that:

- 52% of airports had an operational surplus (subsidies excluded). The majority generated over \$1,000,000 of revenues.
- These airports have significant passenger and aircraft movement levels.
- Individual cost elements such as insurance, property taxes, utilities and security costs do not seem to have a significant impact on the bottom line of these airports.
- Most of the airports currently running an operating deficit (excluding subsidies) are either still benefiting from Transport Canada transition contributions, or are presumably being subsidized by their municipalities.
- Airports with positive cashflows are self-financing approximately 25% of their capital requirements, while airports with deficits are unable to finance capital at all.
- There does not seem to be any evidence that the financial position of airports operated by municipalities is materially different than airports operated by private operators or commissions.

NON-FINANCIAL OBSERVATIONS

Population, income and employment statistics were analysed and it was found that:

- Airports with an operating surplus are located in catchment areas that are more densely populated.
- Most airports located in a catchment area with a population of less than 15,000 are in a deficit position.
- Airports in catchment areas where the population is decreasing are more likely to be in deficit.
- Most airports with surpluses are located more than 250 km from a NAS airport while the majority of the airports with deficits are located within a 250 km radius.

- In 82% of the cases where airports are unable to cover their operating costs, the population of the catchment area has been declining.

CONCLUSIONS

The publication of this study concludes Transport Canada's mandate to report on the financial viability of divested regional and small airports.

The airports currently running operating deficits almost all have the same obstacle – insufficient potential passenger base to attract or support significant air carrier service. In most cases, there is no apparent problem with the airport operation per se, it is simply a lack of users to support the level of facilities and services maintained.

Divestiture, in and of itself, has had a neutral or positive impact on the financial state of these airports. The great majority of airports that were in a deficit position at the time of transfer have been able to significantly reduce that deficit, or even generate a surplus since divestiture. This was possible even in the face of adverse circumstances, particularly since September 2001.

The demography of each catchment area, such as population, income and industry has a direct impact on the operational and financial opportunities that might be available to an airport operator.

In those cases where the outlook is negative, a number of options suggest themselves, although they are beyond the scope of this study. Airport operators could further rationalize airport infrastructure and services to match demand, increase user fees, or implement a combination of these measures.

SECTION 1.0

INTRODUCTION

BACKGROUND

The federal government's National Airports Policy (NAP, 1994) provided a framework that defined the federal government's role regarding airports. There are two main levels of federal involvement in airports with scheduled passenger traffic. Nationally significant airports form the National Airports System (NAS), which includes 26 airports that link the country from coast to coast and internationally. Of these airports, 23 are owned by the federal government but managed by other entities under long-term leases, while 3 have been transferred to the Yukon, Northwest Territories and Nunavut governments. With the exception of transition arrangements, these airports are expected to be financially independent. Numerous studies have shown that the transfer of NAS airports has had a positive impact on the airports, travellers and the communities they serve.

There are also some 330 certified airports in Canada that are outside the NAS, but are of regional or local significance. The National Airports Policy did not contemplate operating subsidies for most of these airports, but approximately 180 airports are eligible to receive federal contributions for capital projects related to safety, asset protection and operating cost reduction.

In 1994, Transport Canada either owned, operated or subsidized 110 non-NAS airports. Under the NAP, the federal government decided to offer the ownership and operation of these airports to local entities that could better determine and provide the level of service appropriate to the business environment and needs of the local community. Local management would permit community stakeholders to make the best investment and business decisions for their airports.

The NAP also stated that the federal government would be withdrawing from any financial or operational involvement with these airports, other than transition financing and some residual capital support for safety projects. The impact of this decision is the subject of this study.

The NAP has shifted the cost of running Canada's airports from the general taxpayer to those who actually use the facilities and services. Of the approximately 330 non-NAS, certified airports in Canada, some 250 have operated for many years without any operational assistance from the federal government.

As a result of air industry changes over the past few years, regional and small airport operators have expressed concerns regarding their ability to sustain and operate their airports effectively over the long term. These concerns include insufficient revenues to cover operating expenses, the financial impact of evolving regulations, limited

sources for funding non-safety capital projects, and the volatile nature of air services to smaller communities.

Further to the decision taken by the government to continue its divestiture initiative in early 2002, it was agreed that Transport Canada would undertake an analysis of small and regional airports that had been divested.

OBJECTIVES AND SCOPE OF THE STUDY

Objectives of the Study

The objectives of the study are to identify systemic drivers and key factors that influence the current and future financial viability of regional and small airports and understand the impact of divestitures on the communities served by these airports.

Scope of the Study

The scope of the study included Transport Canada airports, outside the National Airports System (NAS), that have been transferred to date.

Airports transferred to their respective Territorial governments have been handled separately from southern airports. Transport Canada and the Territorial governments agreed that no site-specific financial analysis would be conducted. A narrative approach would be taken for these airports as they are being operated on a system basis.

AIRPORT PARTICIPATION

The study targeted all 93 airports included in the Regional/Local, Small and Arctic airport categories that have been transferred to date.

Nine airports were visited and personnel representing the owner and operator were interviewed to validate the survey questionnaire, to determine the quality of data that was available for the purposes of the reviews and to develop an enhanced appreciation of the issues faced by these airports.

This sample of airports was chosen to represent a wide distribution based on regional location, size and corporate structure:

Location	Ownership	Operator
Abbotsford, BC	Municipality of Abbotsford	Municipality of Abbotsford
Carp, ON	City of Ottawa	City of Ottawa
Lethbridge, AB	County of Lethbridge	County of Lethbridge
Nanaimo, BC	Nanaimo Airport Commission	Private, Not-For-Profit
Sault Ste. Marie, ON	S.S. Marie Airport Dev. Corp.	Private, Not-For-Profit
Sydney, NS	Sydney Airport Authority	Authority
Thompson, MA	Thompson Regional Airport Authority	Private, Not-For-Profit
Val D'Or, P.Q.	Aéroport Regionale de Val D'Or	Authority N-F-P
Yarmouth, NS	Yarmouth Airport Commission	Commission N-F-P

A total of 66 airports out of 93 (71%) provided information in the form of audited financial statements, a response to the survey or a combination of both.

A provincial / territorial breakdown of the airports' participation is detailed below.

By Province / Territory

	Full Response	Survey Only	Financials Only	Declined	No response	Totals
Alberta	2	0	0	3	2	7
British Columbia	6	1	3	7	5	22
Manitoba	2	1	5	0	0	8
New Brunswick	3	0	0	0	0	3
Newfoundland	1	0	1	0	2	4
Nunavut	0	2	0	0	0	2
Northwest Territories	0	5	0	0	0	5
Nova Scotia	2	0	0	0	0	2
Ontario	10	1	5	2	4	22
Québec	3	0	3	2	3	11
Saskatchewan	2	0	1	1	2	6
Yukon	0	1	0	0	0	1
Totals	31	11	18	15	18	93

Of the 15 airports that declined to participate, information provided through ACAP applications or as part of the study on the Viability of Smaller Canadian Airports commissioned by the Provinces (Dated August 2002) was used for 5 airports. Financial statements were also retrieved through the public domain for one of the airports that did not respond.

DATA LIMITATIONS

The ability to fairly aggregate data and compare airports was hampered by the following factors:

- The quality and quantity of information provided did not in some cases provide sufficient information such as detail on the sources of revenues and expenditures initially envisioned. Airports provided only historical data.
- Airports operated by municipalities rely on the municipal accounting system and may not have the necessary segregation of accounts. Capital expenditures were also difficult to depict for these airports. The majority of the capital assets of these airports are being accounted for within the municipal books as any other asset.
- Some airports managed by third party/private sector entities were reluctant to share financial information due to confidentiality concerns. Some did provide limited financial information.

METHODOLOGY

Financial Analysis

Using data collected from audited financial statements:

- Each airport's ability to cover its cash operating expenditures (excluding subsidies) and its capability to finance its regular capital expenditures were assessed.
- Historical data from 1999 to 2002 was used with a majority of the focus on 2002. Revenues, to the extent possible, were broken down into aeronautical (landing fees and terminal fees) and non-aeronautical (Concessions, Rentals, Parking and other) sources. Specific cost items such as property taxes, insurance, security costs and utilities were examined separately where possible.
- Passenger Volumes, the types of aircraft using the airports, gross take-off weights (GTOW) and the types of movements (itinerant and local) were all analysed to determine the kind of activity and the level of traffic at each airport.
- The lengths of runways were compared to the critical aircraft for **scheduled passenger service** currently using these airports.

Non-Financial Analysis

Catchment Area

Using census data from Statistics Canada, primary catchment areas for each airport were established and studied¹. The analysis of the catchment areas targeted factors that increased or decreased the likelihood of the airport attracting passengers.

For the 5 indicators studied, assumptions were made as follows:

Indicator #1 – Population

- The size of population is an indicator of the number of potential passengers.
- Growth or decline in population affects the potential passenger base and is an indicator of local economic health. Individuals in growth areas are more likely to travel by air.

Indicator #2 and #3– Average Annual Income & Average Family Income

- Individuals with higher disposable income are more likely to travel by air for leisure purposes.

Indicator #4 – Employment level

- Employed individuals are more likely to travel by air, both for business and leisure.

Indicator #5 – Sector of Employment

- Individuals employed in the tertiary and quaternary sectors are more likely to travel for business purposes than individuals employed in the primary and secondary sectors due to the nature of their enterprises.

Each of these indicators was compared to the mean value for the study population to ensure that urban distortions were avoided.

¹ Although airports with discount carrier service have a secondary catchment area linked specifically to this service, only the primary area was studied.

Distance to other airports

Airports compete with each other on various levels, depending mostly on the distance between them. Generally speaking the greater the distance the lower the level of competition. The following assumptions were made:

Flight customer behaviour is affected by 3 categories of factors:

- The price of tickets. Individuals are willing to drive farther to get a better price;
- Direct flights and airlines choices. Individuals are again willing to drive to another airport to get this flexibility;
- Flexible schedules (more flights per day) will also impact customer behaviour.

To reflect these three factors, distances between airports were calculated as follows:

- Distance to closest airport offering discount carrier service in 2002 reflects the price criteria;
- Distance to closest National Airport System airport reflects the direct flights and airline choice factor;
- Distance to closest competitor reflects the competition between Regional airports and the impact of level of service.

When analysing the impact of the distance to the closest competitor, airports were divided in 3 categories based on air carriers offering flights and/or on the number and destinations of flights: better level of scheduled passenger service than closest competitor, equivalent level of service or lower level of service.

Qualitative Survey

A survey of airport operators was conducted concurrently with the Regional and Small Airports Study, for use in preparing a Program Evaluation on the Divestiture of Non-NAS Airports.

The survey was intended to gather views of airport operators on the divestiture process itself, whether divested airports were more responsive to community and local needs, and whether divested airports were able to function in a more commercial and cost-effective manner.

Some of the comments received through this survey are reflected in Section 5.0 – Impact on Communities, and the appendices.

SECTION 2.0

GENERAL OBSERVATIONS

AIRPORT CLASSIFICATION

Of the sixty-six airports that provided information to Transport Canada, sufficient information to conduct a valuable analysis was gathered from forty-six of them.

To simplify the text, the forty-six airports were categorized as either Category A: airports that cover their operating costs or Category B airports: airports that do not cover their operating costs.

Of the twenty airports excluded from the two categories, four were considered too small and did not compare in many ways, two were just recently transferred, three only provided financial data up to 2001, three responded only to the survey and eight are territorial airports. No definite observations could be made for these airports.

Exceptions

Some airports were excluded from some or all elements of the analysis due to factors such as:

- The financial position of four airports did not reflect the size, activity level, revenue performance or demographic profile – some non-systemic factor is at play, and inclusion would distort the conclusions. These airports are not included in the above mentioned categories.
- The distance to a NAS airport was small, yet the financial position was positive.
- The airport transferred too recently to obtain meaningful data.

FINANCIAL

Analysis of the audited financial statements indicated that:

- The majority of the airports that generated over \$1,000,000 of revenues have an operating surplus (subsidies excluded).
- Most airports with significant passenger levels (over 30,000 E&D passengers) or revenue aircraft movements (over 13,000) have an operating surplus.
- Individual cost elements have not had a significant impact on the financial situation of these airports. While salaries and other operating costs represent on average over 75% of the total costs, other costs such as property taxes and insurance combined have started to increase.
- Most of the airports currently running an operating deficit (excluding subsidies) are either still benefiting from Transport Canada transition contributions, or are presumably being subsidized by their municipalities.
- Airports with positive cashflows are self-financing approximately 25% of their capital requirements, while airports with deficits are unable to finance capital at all. Transport Canada, however, has provided over \$70 million in capital contributions (ACAP) to these airports in the last 5 years.
- While municipally run airports may have the advantage of not paying property taxes, or benefit from the municipal public works departments for services, these advantages do not seem to play a material role in the financial situation of airports. They do not, in and of themselves, determine the relative success of the enterprise.

NON-FINANCIAL

Catchment area:

It was found that the economic activity of the catchment area has a direct impact on the financial situation of the airports as:

- Airports in a favourable financial situation are generally located in a catchment area that is densely populated.
- In contrast, most airports located in a catchment area with a population of less than 15,000 are in a deficit situation.
- Where the size of the population of the catchment area is decreasing, airports are likely to be in deficit.

- Airports in a catchment area where the employment level is average or above average are more likely to be in a positive situation than airports located in catchment areas where the employment level is below average.
- Where the average individual income is lower than study population mean, airport deficits are more likely. If the average individual income is above average, the odds are that the airport will be in a positive position.
- Airports located in a catchment area where the employment in the tertiary and quaternary sector is below average are more likely to be in a deficit financial situation. In catchment areas where it is above average, airports are likely to be in a positive situation.

Competition with surface transportation and other airports is a real challenge:

- Most airports in a surplus situation are located more than 250 km from a NAS airport, while 85% of airports in a negative financial situation are within a 250 km radius.
- Most airports with a surplus are located more than 250 km from an airport offering discount carrier service while airports in deficit are located closer than 250 km from such an airport.
- Airports offering higher levels of scheduled passenger service than the closest competitor airport are in a surplus position. In addition, airports with discount carriers are in a better financial situation than others. Airports offering a lower level of service have a higher chance of being in deficit if the closest competitor airport is within a 90 minute drive.
- Airports offering an equivalent level of service, but sharing a catchment area within a 100 km radius, are likely to have at least one airport, if not both, in a deficit position.

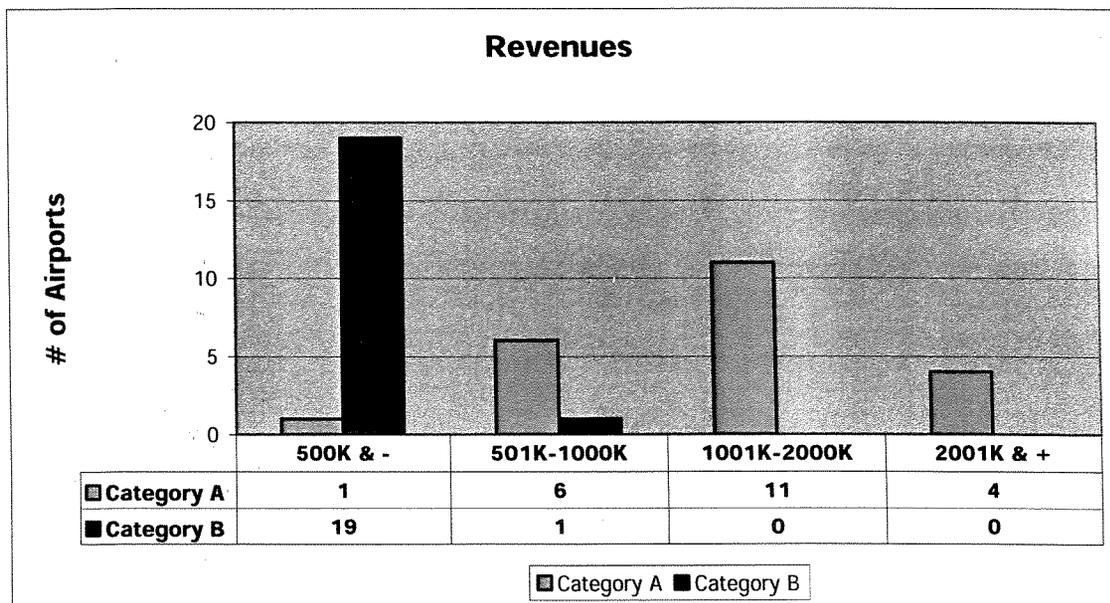
SECTION 3.0 FINANCIAL ANALYSIS

LEVEL OF ACTIVITY

Revenues

Most airports that have been able to generate over \$500,000 of revenues have an operating surplus (Category A airports). The surpluses are, on average, approximately 18% of the total revenues generated by these airports. In the case of the Category B airports, revenues range from \$50,000 to \$500,000. Their deficits are, on average, 31% of total revenues.

Table 3.1

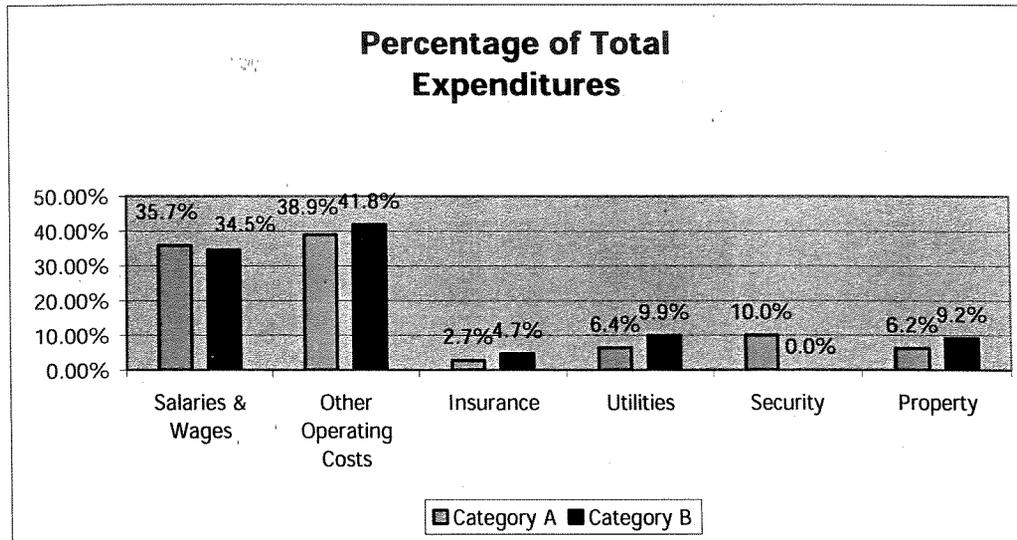


Category A airports generate significant aeronautical revenues (landing fees and terminal fees). The majority of revenues generated by Category B airports come from non-aeronautical sources such as the rental of land and space and fuel concessions. The net impact of fuel sales, however, is not significant.

Expenses

Airports have a high percentage of fixed costs. Regardless of the traffic levels, certain costs are required to be expended to keep the airport operational. Table 3.2 below, depicts the percentage of certain cost elements in comparison to the total expenditure level encountered at these airports.

Table 3.2



On average, over 75% of the costs associated with these airports are related to salaries, wages, and other operating costs. While insurance premiums have sharply increased in recent years, they represent on average less than 5% of the total costs of the airports. Other costs such as property taxes, utilities and security costs each represent less than 10% of the expenditures.

Even though property tax does not generally represent a major cost element for airports, it did amount to over 16% of total costs (over \$130,000) for one Category B airport.

Airports were asked to provide detail information on how they thought compliance with new safety regulations had increased their operating costs since divestiture. The majority of the airports that responded felt that the new safety regulations had increased their costs. No quantitative assessment was completed as minimal information was provided. When combined with other factors such as declining passengers, reduction in airline service, and catchment area socioeconomic factors, the implementation of regulatory requirements is perceived as an additional cost burden.

Net Position

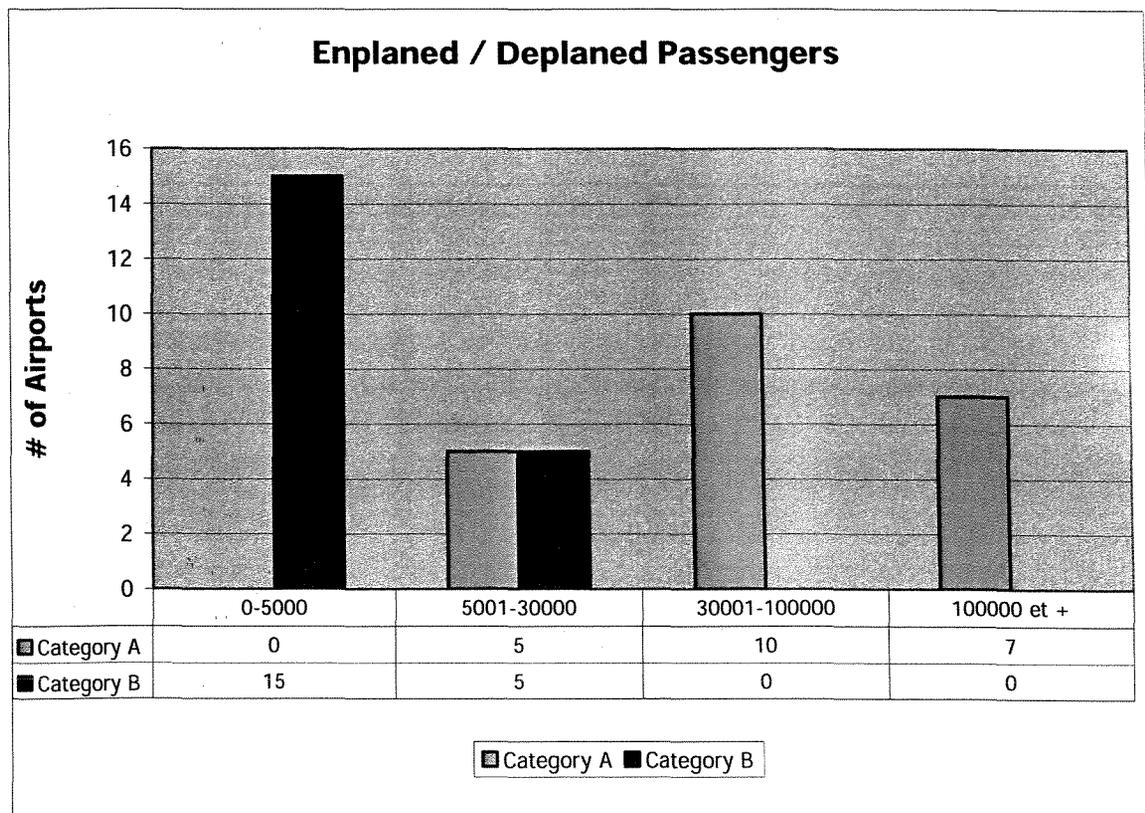
The great majority of airports, which were in a deficit position at the time of transfer, have been able to reduce significantly that deficit or even generate a surplus since divestiture. Airports in a current negative situation are either still benefiting from Transport Canada's transition contribution, or are presumably being subsidized by their municipalities. Three-quarters of the airports with operating deficits in 2002 were not operated by Transport Canada prior to divestiture.

It can be concluded, therefore, that the divestiture policy has had a neutral to positive impact on these airports' net operating position.

Passenger Volume

Airports that have significant passenger throughput, generally more than 30,000 annual enplaned and deplaned passengers, were able to maintain a positive operating position. On average, Category B airports had less than 6,000 enplaned and deplaned passengers. The illustration presented in Table 3.3 displays this observation.

Table 3.3

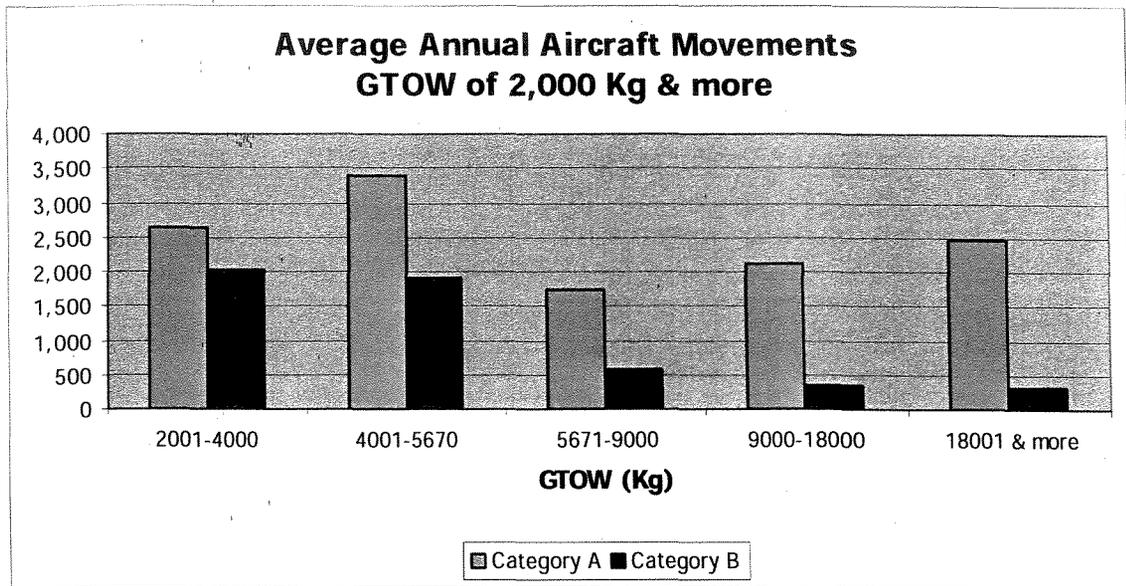


Airports with greater passenger levels also benefit from higher commercial revenues generated at the terminal's concessions and vehicle parking.

Movements

Table 3.4 below illustrates the average annual aircraft movements by gross takeoff weight categories for flights of 2,000 Kg and more registered at all airports.

Table 3.4

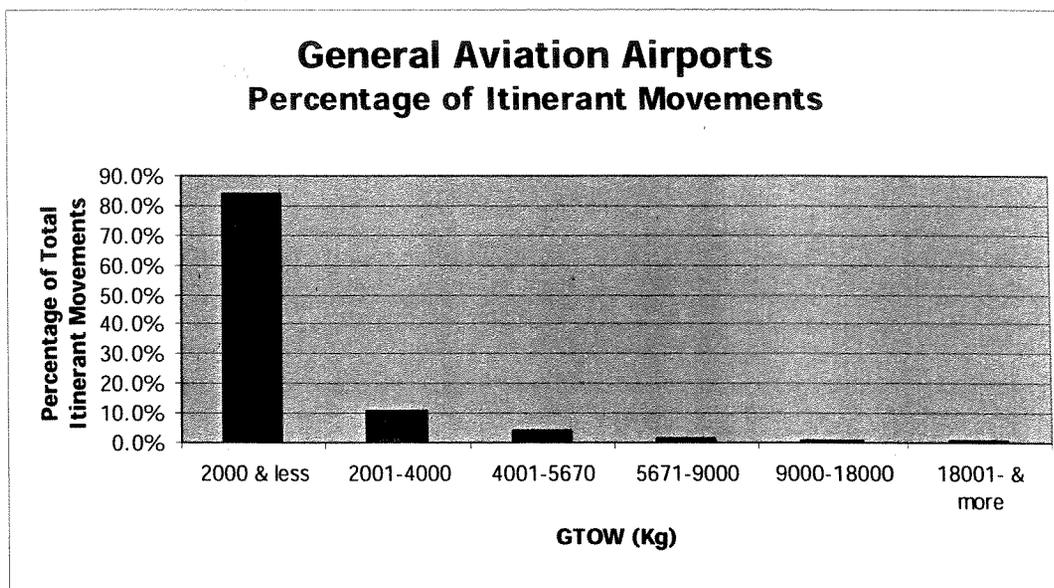


Category A airports have a larger percentage of heavier aircraft movements than Category B airports. On average, Category A airports have 4,600 annual movements of aircraft with a gross takeoff weight of more than 9,000 Kg. as compared to Category B airports, with an average of 680. This, coupled with frequency of service, has a direct impact on aeronautical revenues.

General Aviation

In 2002, the general aviation airports in the study population had a total of over 90,000 itinerant aircraft movements. 84% of their itinerant aircraft movements were typically registered by light aircraft (2,000 Kg or less – see Table 3.5 below), which does not result into any significant amount of revenues. Like other Category B airports, these airports show that their main source of revenues generally comes from the sale of fuel and the leasing of space and land.

Table 3.5



Airports that have lost their scheduled passenger service

Airports oriented towards passenger service but currently without scheduled service are having a difficult time generating any revenues to offset their costs as most of them had less than 4,000 itinerant aircraft movements and obviously few passengers in 2002.

The infrastructure at these airports is being maintained as if a regular scheduled passenger service was offered. While 40% of the itinerant aircraft movements at these airports are registered by private and small commercial flights, these types of flights tend to utilize light planes (2,000 Kg or less) with very few passengers for which minimal aeronautical or commercial revenues are generated.

RUNWAYS AND CRITICAL AIRCRAFT

The following observations were made on runways and the critical aircraft for scheduled passenger services for both categories of airports.

Category A Airports

With the exception of 5 airports, these airports operate with a runway of 6,000 feet or more. The great majority of these airports have runways that match the critical aircraft for scheduled passenger service currently identified for each site.

Out of 22 airports with a surplus for 2002:

- 8 have one runway,
- 12 have 2 runways
- 2 have 3 runways (in 2 cases, the tertiary runway is turf)

Most of the airports with more than one runway have a second runway of at least 5,000 feet.

Some airports classified as an alternate to a larger airport maintain and operate a longer runway than what the critical aircraft for scheduled passenger service actually requires. This will lead to additional costs, without necessarily attracting any incremental revenues.

Category B Airports

On average, the majority of these airports operate with a runway of 5,000 feet. Of the 24 airports with a deficit for 2002:

- 9 have one runway
- 12 have two runways (5 runways are not asphalt base)
- 3 have three runways (one runway is gravel base)

It was observed in some cases that the length of the runway(s) currently being maintained by these airports exceeds what is required for the critical aircraft for scheduled passenger service.

CAPITAL FUNDING

Category A Airports

Based on the information reported by airports, over \$22M and \$16M were spent on capital projects in 2001 and 2002, respectively. In 2002, only 22% of the capital expenditures incurred by these airports was financed through operations. In 2001, the percentage was 15%.

All twenty-two Category A airports are currently eligible to receive funding via the Airports Capital Assistance Program (ACAP). Over the last five years (1998-2002) Transport Canada has contributed over \$42M, through ACAP, for various safety related capital projects at these airports.

Even though these airports manage to generate moderate annual surpluses, the capacity to fund significant safety capital expenditures would not exist without the contributions made under ACAP.

Category B Airports

These airports spent just over \$3M and \$5M in capital expenditures in 2001 and 2002 respectively. In 2002, operational resources financed 4% of the capital expenditures incurred by these airports. In 2001, this percentage was 18%.

Eighteen of the twenty-four airports are currently eligible to receive funding via the Airports Capital Assistance Program (ACAP). Over the last five years (1998-2002) Transport Canada has contributed close to \$30M for safety related capital projects at these airports.

SECTION 4.0 NON-FINANCIAL ANALYSIS

CATCHMENT AREA

The concept of catchment area is used in all market analysis. In a commercial sense, a catchment area can be defined as the geographical zone, which contains the regular clients of a defined commercial centre. The same concept can be applied to an airport where the catchment area is a geographical zone containing the potential users and passengers of the airport

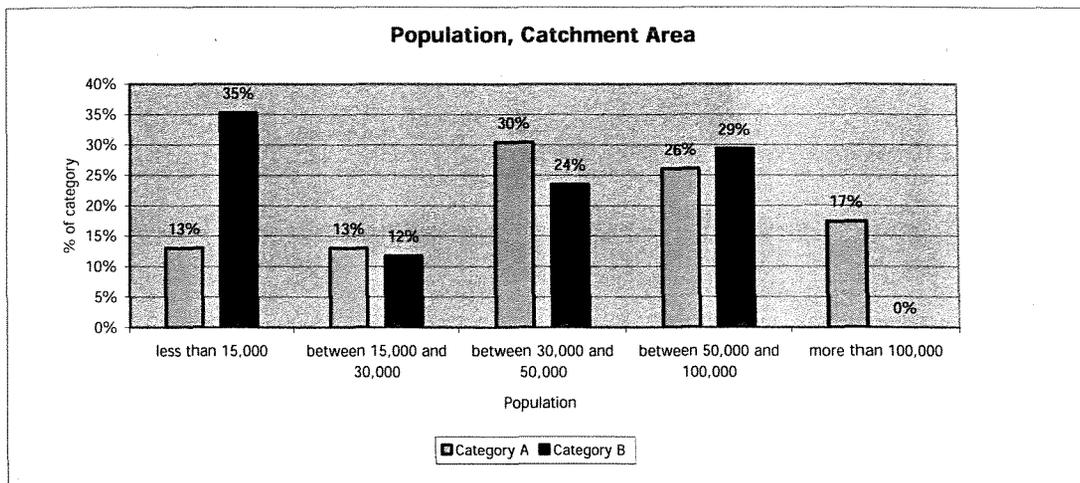
Indicator #1 – Population

The economic activity of the catchment area of an airport has a direct impact on its financial situation. Airports benefiting from a captive passenger base have a better chance of producing positive results. The size of population is an indicator of the number of potential passengers.

An increase or decrease in population affects the potential passenger base and is an indicator of economic health. An increase in population is positive not only because it enhances the number of potential passengers but also because it indicates a healthy, growing economy. Individuals in growth areas are more likely to travel by air.

It was observed that Category A airports are mostly located in catchment areas that are densely populated compared to Category B airports. Table 4.1 below, illustrates the percentage of airports found within various population ranges.

Table 4.1



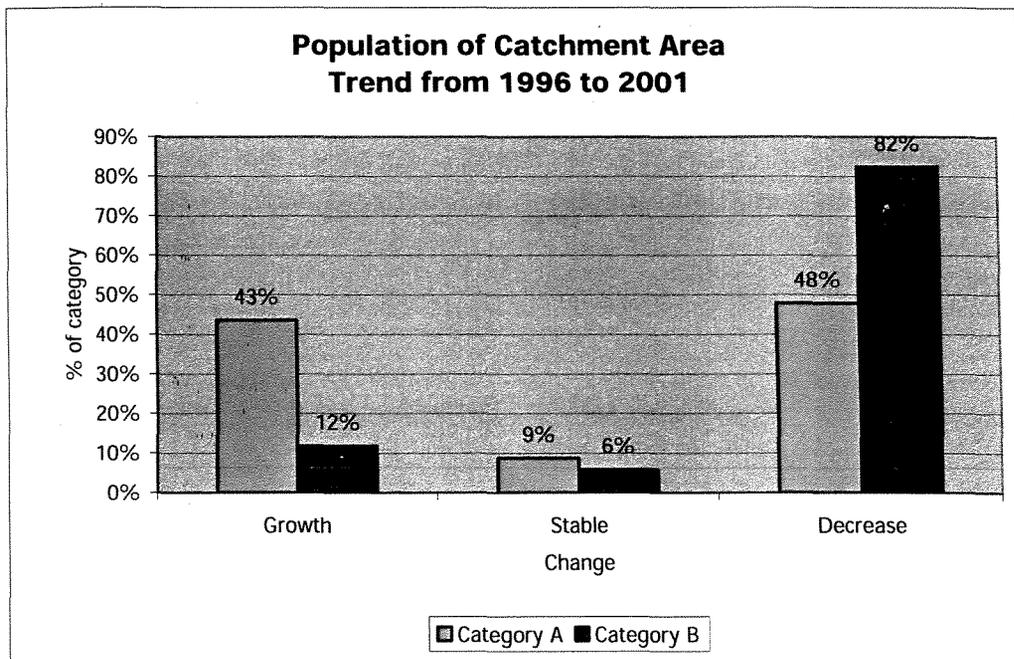
It was found that 71% of Category B airports are located in catchment areas with a total population of less than 50,000 individuals. All Category B airports located in an area with a population of more than 50,000, with one exception, shared part of their catchment area with other airports.

Only 13% of the Category A airports are located in catchment areas with a population of less than 15,000 individuals. 43% of these airports are in a catchment area with more than 50,000 of population.

Trend of the population of the catchment area

Airports in catchment areas where the population is decreasing are more likely to be in a deficit situation. In contrast, as the size of the population increases, the better the chances of an airport to be in a positive situation. Table 4.2 outlines the trend from 1996 to 2001 of the catchment area for both categories of airports.

Table 4.2



Between 1996 and 2001, the size of the population of the catchment area decreased for 82% of the Category B airports. The average decrease is 8%.

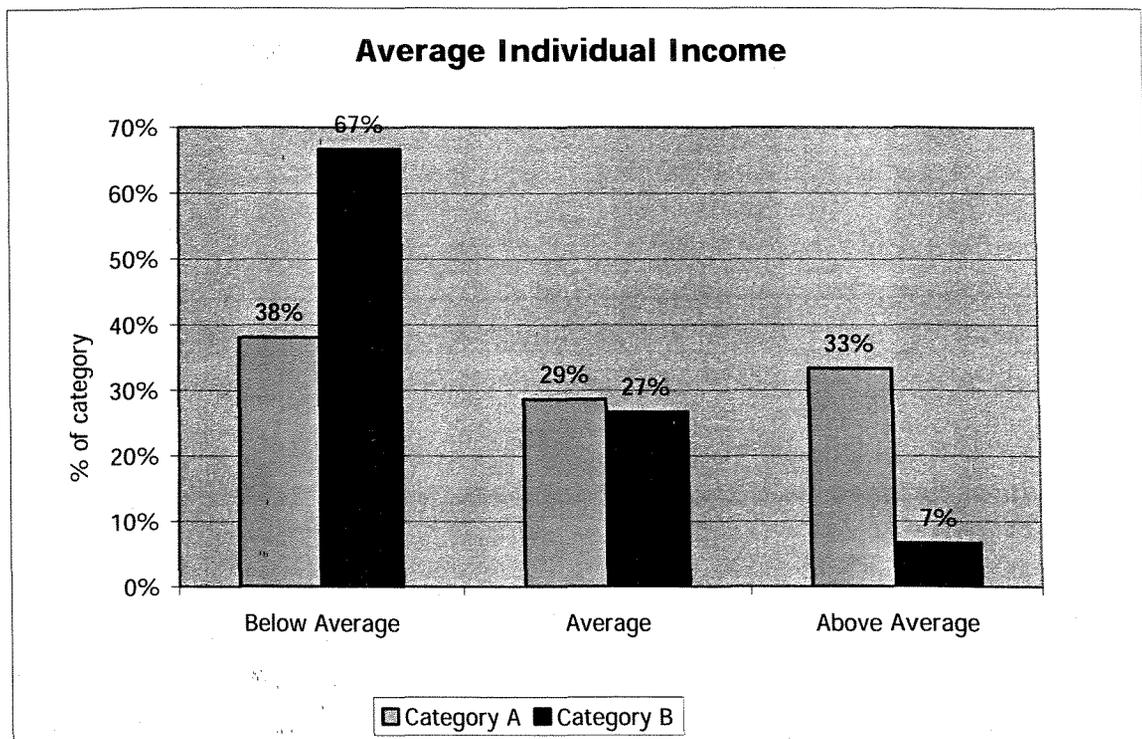
The size of the population of the catchment area increased for 43% of the Category A airports and decreased for the same proportion. The average value of the decreases is 6%, with values in the series ranging from 2% to 13%. The average increase is 6%, with values ranging from 1% to 18%. Even though decreases in the population of the catchment areas of Category A airports have been registered, the potential passenger base is still considerable as indicated in Table 4.2 above.

Indicator #2 & #3 – Average Annual Income & Average Family Income

Individuals with higher income are more likely to travel by plane for leisure or business purposes.

There is a significant correlation between average income and the financial success of the airport serving the catchment area.

Table 4.3



On an average individual income basis, a high percentage of Category B airport catchment areas (67%) were below average. The average individual income at Category A airports was average or above average in 62% of the cases.

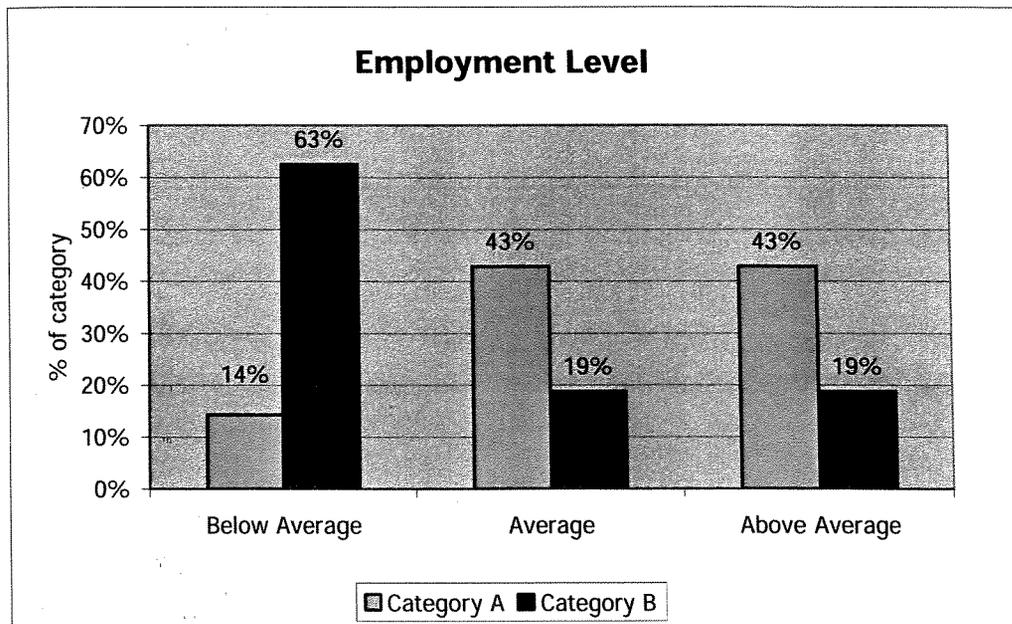
A very similar distribution is seen with the Average Family Income.

Indicator #4 - Employment Level

Employed individuals are more likely to travel by air, both for business and leisure.

Airports situated in a catchment area where the employment level is average or above average are more likely to be in a surplus position than airports located in catchment areas where the employment level is below average. Table 4.4 illustrates the percentage of airports and the employment level of their catchment area in comparison to the group average.

Table 4.4.



The catchment area for the majority (63%) of the Category B showed an employment level below average.

The employment level in the catchment area of Category A airports was above average or average in 86% of the cases.

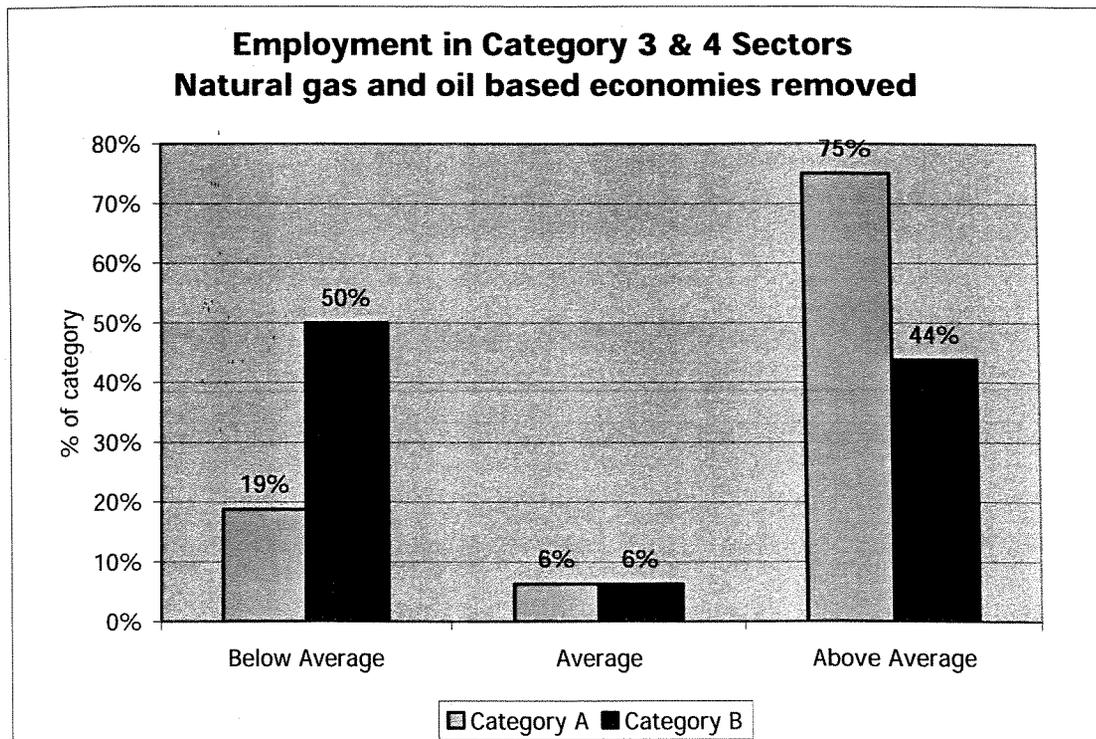
Indicator #5 - Sector of employment

The sector of employment should influence the number of potential business passengers a catchment area might have. People employed in the primary and secondary sectors such as fishing, agriculture and manufacturing will have a tendency not to travel as much based on the nature of their work when compared to tertiary and quaternary sectors.

It was found that airports located in a catchment area where the level of employment in the tertiary and quaternary sector is below average are more likely to be in a deficit situation. In catchment areas where it is above average, airports have a tendency to be in a more positive financial situation.

Employment in the tertiary and quaternary sectors is generally below average or average (57%) for Category B airports. By contrast, Category A airports are generally located in catchment areas where employment in the tertiary and quaternary sectors is above average (57%).

Table 4.5



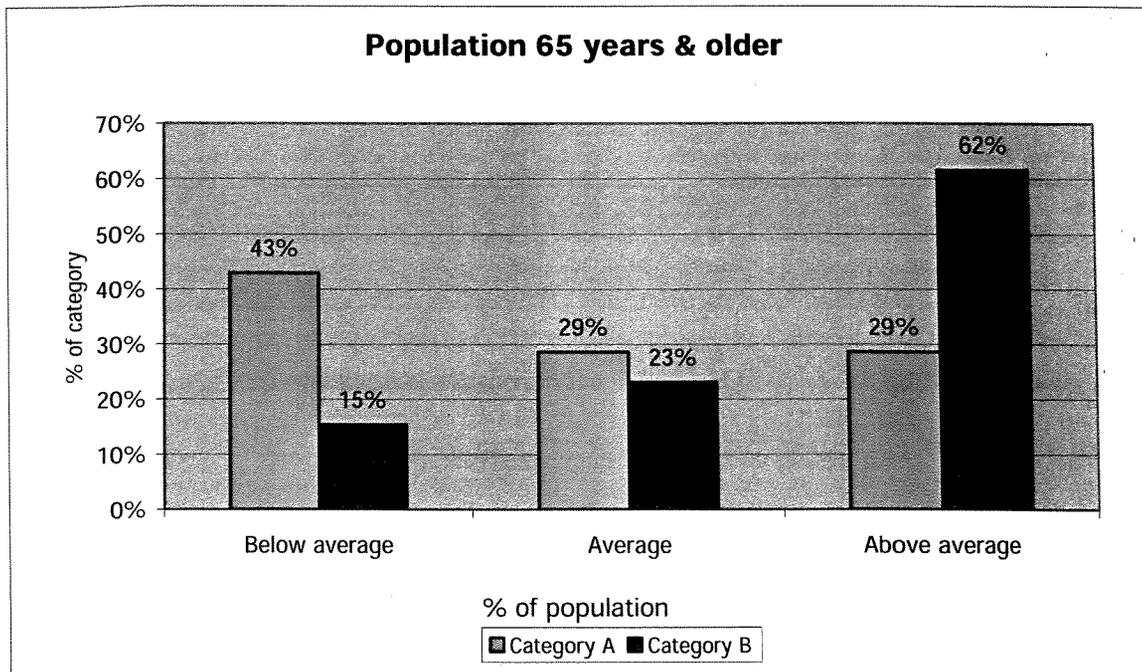
Included in the group of Category A airports is a sub-group of airports located in northern Alberta and British Columbia where the booming economy is directly linked to the natural gas and oil industry. This is an unusual situation that goes against the trend of most developed economies where the tertiary and quaternary sectors are the main economic drivers. If this sub-group of airports is removed, the percentage of

Category A airports located in catchment areas where employment in the tertiary and quaternary sectors is above average jumps to 75%.

Additional Indicator – Age of Population

Airports located in catchment areas where the percentage of the population over 65 years old is above average tend to have an operating deficit while airports located in a catchment area where this age group represents a lower than average percentage of the population tend to have a balanced financial situation.

Table 4.6



Although very significant, this indicator was not retained in the aggregate values as the data available was for 1996 while all other indicators were for 2001. The trend is, however, clear. It will only be amplified in time as the population ages.

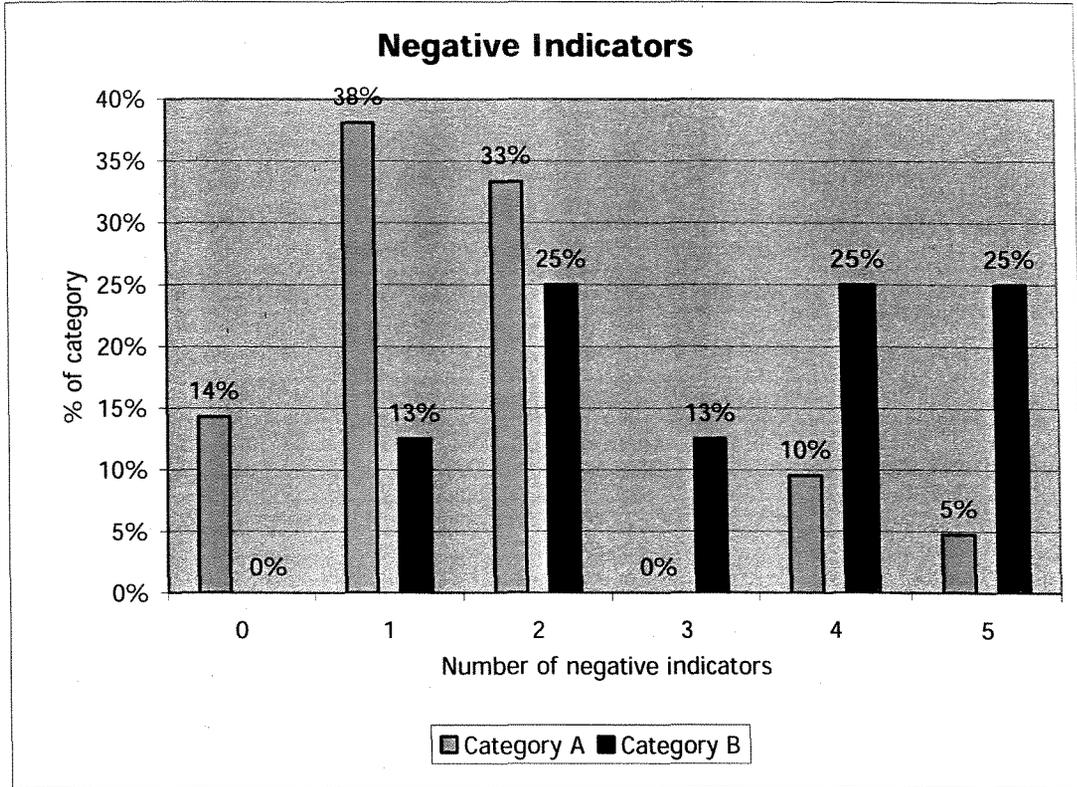
Aggregate of Indicators

Negative Indicators

Table 4.7 illustrates the aggregate of all five catchment area indicators for which each category of airports had a negative result. It was found that when more than half of

the indicators are negative, the likelihood of an airport being in a deficit situation is much higher.

Table 4.7



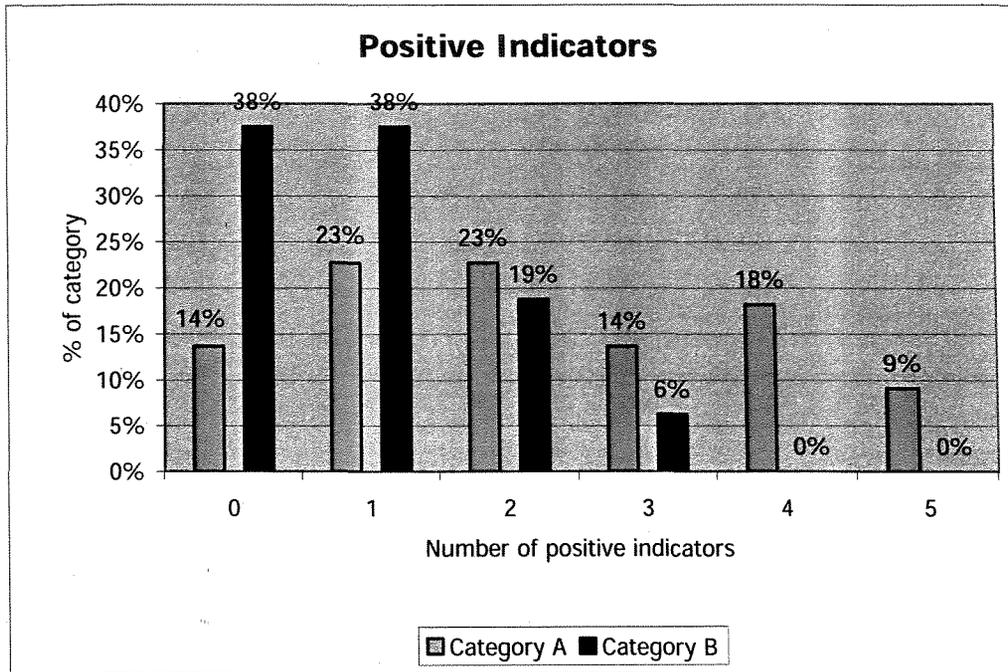
63% of the Category B airports had 3 or more negative indicators. None of them had zero negative indicators and only 13% had one negative indicator.

85% of Category A airports had 2 or fewer negative indicators with the exception of 2 airports. For those 2, other factors offset the effects of the demographics.

Positive Indicators

If two or more indicators are positive, the airport will likely be in a surplus position.

Table 4.8



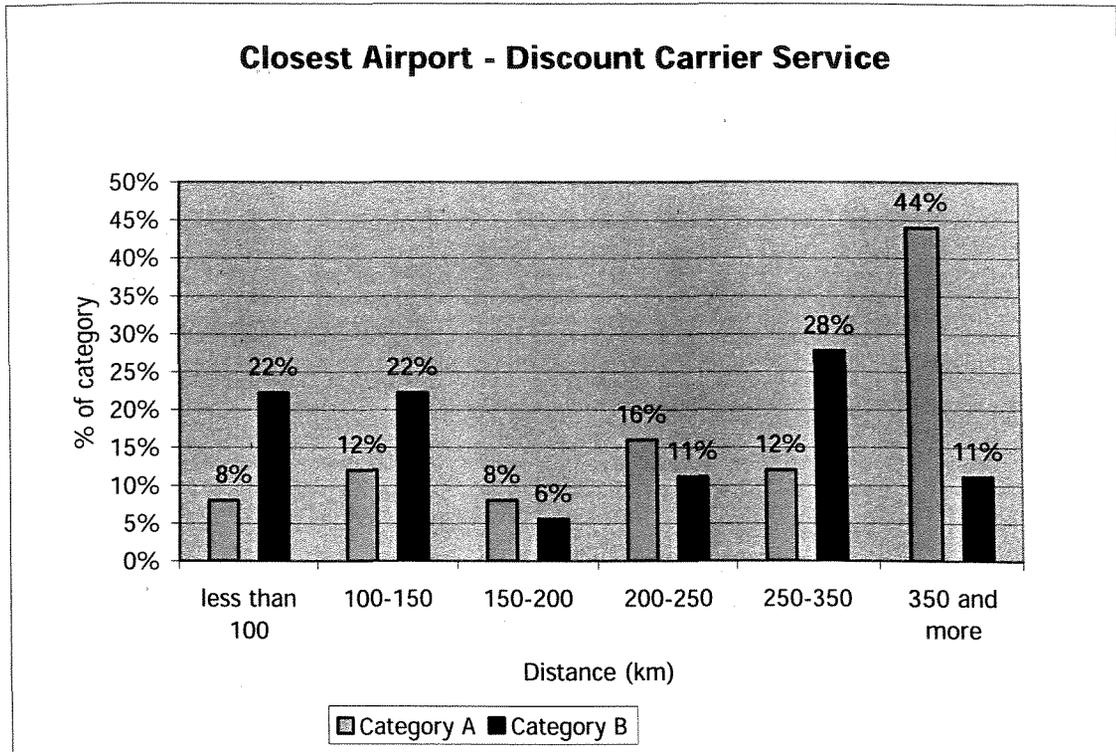
DISTANCE FROM OTHER AIRPORTS

The distance to other airports offering various levels of service highlights the reality and the importance of the competition offered by other airports and surface transportation. Individuals are willing to travel a certain distance, by other modes than air, to access services that are more conveniently scheduled, more direct or less costly.

Discount Carrier Service

Price is important to consumers. The farther an airport offering only regular service is from an airport offering discount service, the less it is affected.

Table 4.9



Half the Category B airports are located less than 250 km from an airport offering discount carrier services. Most of the airports located further than 350 km from an airport offering discount carrier service are located in small communities (population of catchment area less than 15,000) and could be considered exceptions. This exception is based on the fact that their revenues are limited because of the level of activity generated and not because of the proximity of a competitor. When removing this exception, the percentage of Category B airports located 350 km from an airport with discount service drops from 27% to 11% and the percentage of airports located within 250 km of an airport with discount carrier jumps to 61%.

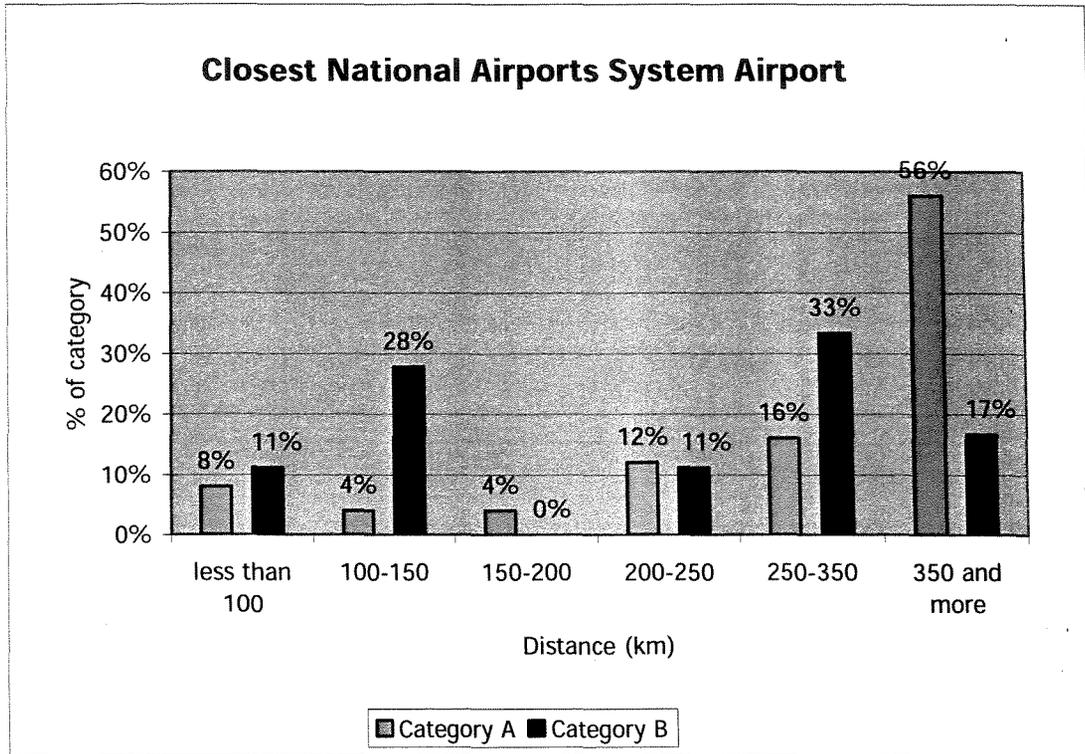
In the case of Category A airports, including airports offering discount carrier service as the closest airport, the competitor airport is generally (56%) located more than 250 km from the airport itself.

Distance to NAS Airports

Individuals may bypass the closest airport and drive to another one to obtain a better choice of airlines, schedules and services. This might be for an international or transborder flight or even to get a direct flight to a domestic destination. Airports from the National Airports System are generally the only airports offering a full range of such services. The distance from a regional airport to the closest NAS offering full

range of services is inversely related to the level of competition offered by the combination of roads and the said NAS airport.

Table 4.10



The vast majority of the Category A airports (72%) are located more than 250 km from a NAS airport with full range of services, with 56% of Category A airports located more than 350 km from such an airport. A minority is within a 200km radius of a NAS airport (16%).

It is to be noted that less than a third of the Category B airports (32%) are located more than 350 km from a NAS airports. When the exceptions are removed as discuss in the Discount Carrier Service analysis paragraphs, the percentage of airports located more than 350 km drops to 17%. Another third of them are located less than 150 km from such an airport.

SECTION 5.0

IMPACT ON COMMUNITIES

TRANSPORT CANADA PERSPECTIVE

The impact of divestiture on airports must be separated from the impact on communities.

The 1994 National Airports Policy stated that the federal government would be withdrawing from any ownership or financial/operational involvement in non-NAS airports, subject to transition arrangements. Airports were divested to local entities that were, and are, in a better position to plan and make business and investment decisions to suit the changing aviation environment of their communities.

The fact that 90% of the airports which are still experiencing operating deficits have been able to reduce that deficit from 30 to 90% since transfer, in spite of the massive re-structuring of the air transport industry during that period, is evidence that local control is effective.

The financial analysis demonstrates that airport transfer has had a neutral or positive effect on the airports involved.

Notwithstanding that success, it is not necessarily the case that the community would see a positive impact from a successful divested airport. With limitations of data and time, it would not have been possible to conduct a full economic analysis of the impact of each of these airports on their communities, much less a meaningful comparative analysis of pre and post-transfer impacts. Useful anecdotal evidence, however, has been gathered through a qualitative survey of local perspectives.

A summary of these perspectives follows. Further detail may be found in the appendices.

AIRPORT OPERATOR PERSPECTIVES

Divestiture has provided airports with some autonomy to make quick decisions and to become innovative in revenue generation and operational efficiency.

A number of innovative initiatives have been implemented by a large majority of airports in an attempt to achieve and maintain self-sufficiency. However, an overarching perception still exists that issues outside of the control of the airports, such as air services, regulatory creep, insufficient capital funding, and rising security, operations and maintenance costs, are major impediments to the goal.

Airport operators held divergent views on whether their community was generally satisfied with their post-divestiture activities. Forty-seven (47) percent saw it as unchanged compared to a smaller percentage (35%) who saw satisfaction as having increased.

Those airports that reported an increase usually referred to their enhanced ability to: consult with the community; market the airport; change operations and costs; and make decisions faster with no “bureaucracy.” “Communities are recognizing that it is now ‘their’ airport (involving a sense of pride and ownership.)”

Airports that viewed community satisfaction as unchanged mentioned general financial circumstances such as: “the aviation community is not happy with us due to the high fees and the fact that we charge everyone.”

Airports used approaches such as the following for assessing local community needs:

- Customer satisfaction surveys
- Airport board
- Meetings with local councils, community groups and associations (e.g. Chamber of Commerce)
- Committees such as an airport marketing committee
- Public notices
- Suggestion boxes
- Open houses (e.g. Annual Airport Day) – general public invited

The general awareness of local needs and contact with community groups was perceived by a majority of airports as having increased since divestiture: “Clearly, local community operators and airport owner/operators (who also live in the local community) can react quicker and are generally more aware of local needs than remote managers (i.e. Transport Canada).”

This increased awareness, however, does not appear to be directly reflected in increased ability to adjust fees, operations or levels of service to changing local conditions.

Airport operators did not comment on their financial relationships with their communities.

LOCAL GOV'T AND CHAMBERS OF COMMERCE PERSPECTIVES

On airports' long term sustainability:

- A few representatives from Chambers of Commerce of smaller communities interviewed in the case studies feel the airports are often dependant on the state of the local economy. For the airports to be successful, the opportunities have to be present in the community. The President of a Chamber of Commerce stated that regions or smaller municipalities often have difficulties in terms of economic growth, and as long as this problem is present in the community, the airport will struggle.

On overall satisfaction and response to local needs:

- Respondents held divergent views on whether the community is generally satisfied with post-divestiture activities. Some case study stakeholders attribute an increased satisfaction to the fact that airports are now locally owned and operated, thus better reflecting the community's needs. Other stakeholders interviewed attribute the unchanged general satisfaction with the post-divestiture activities to the fact that the airport operators remained the same after divestiture.
- Airport operators, as well as some Chamber of Commerce representatives, are of the opinion that communities now have a greater sense of pride and ownership towards the airports compared to when they were federally owned and operated.
- In general, airport operators, local government and local business all agree that airports are now more aware of local needs. However, in some instances, the local business community feels they are still not being consulted.

On consultation:

- Case study results are varied, from no formal mechanism to obtain community and user views, to public consultations and customer satisfaction surveys.
- Although the majority of airport operators surveyed as part of the case studies are of the opinion that the airport is more responsive to local needs, representatives from the Chambers of Commerce are more divided.

- In one of the case study communities where positive results are noted, there appears to be a close working relationship between the airport operator and the community. Various members of the airport management team sit on Chamber of Commerce committees, including the Transportation Committee. In addition, airport management work closely with the municipality's Economic Development Committee and on human resources and strategic planning issues.
- In another case study where the two groups cooperate, the Chamber of Commerce performed a survey of air service and invited airport and air service providers to contribute to the development of the questions.
- Some of the case studies yield less positive examples. For instance, one Chamber of Commerce indicates that there was no consultation by the airport and is surprised by the airport's statement that there is. Perhaps this difference in opinion can be explained by one case study example in which the airport consults with an airport user council but not with non-aviation businesses in the community.
- Local government representatives that were interviewed are also divided on this issue. Some representatives do not think or are not aware of the airport being more responsive or having increased consultation as a result of the divestiture. Others think that the airport has consultation mechanisms in place, but are not aware of anything formal.

SECTION 6.0

TERRITORIAL AIRPORTS

Transport Canada and Territorial government representatives agreed that territorial airports would be dealt with as a separate group due to their unique circumstances. The Arctic airports are considered an essential service by the Territorial Governments. They are managed on a system basis, with other airports. As such, any comparison with the financial results at southern airports would be of little value.

Observations from Territories

View on compliance with safety regulations and cost increases

Safety regulations such as CAR 308, Wildlife Management Plans and Safety Management Systems have or will have an impact on the territorial airport systems. For example it was reported that:

Significant cost increases have occurred due to stricter compliance requirements related to TC Aerodrome Standards and Procedures (TP 312). Aerodrome Safety's varying interpretations of TP 312 i.e. what was satisfactory one year (or for the past 10-20 years) is suddenly not acceptable (while nothing has changed in the airport operation nor the physical components to justify the reversal) is damaging. This lack of consistent interpretation has created a snowball effect where airport capital programs are "turned around" as a result of the inspectors suddenly finding issues that do not meet the 'new' standards interpretation. The airport operator is often forced to scramble, within a short time frame and at extra costs, to correct the finding without any real justification from a cost/benefit perspective.

It was also mentioned that Transport Canada seems to perceive that any new aviation safety regulation will enhance safety when in fact these new initiatives divert money from an already safe program. New interpretations and compliance requirements affecting certified airports have diverted resources from aerodromes that while not certified, strove to meet similar safety standards. For example, in 2002 the Yukon Government maintained 29 aerodromes. Due to recent changes in the interpretation of the standards for airports, 12 remote aerodromes can no longer be maintained on an ongoing basis. Their budgets had to be diverted to feed TC's stricter compliance objectives at certified sites.

Future aviation-related regulatory and legislative changes should not proceed without a comprehensive risk assessment and economic impact analysis that will provide a clear determination of how the proposed changes will affect the health and viability of the industry, communities and air travellers as a whole.

View on various issues and their possible impact on the airports financial capability

- Airline restructuring / Air services changes:

Nunavut responded by indicating that a reduction in traffic post restructuring has had a negative impact on revenues. The overall system reduction has been 7% the past two years. The Yukon indicated that it was difficult to discuss specifics as their airports are operated on a system basis. They mentioned that in this type of co-operative system, a change that directly affects one airport may or may not affect the others. The NWT reported that this issue did not have much impact on their airports.

- Impact of enhanced security on passengers, Insurance and Property Taxes:

None of the Territories reported any significant issues related to the enhanced security requirements at airports. However, they did indicate that insurance costs have increased but do not represent a financial burden. All three territories reported that Property Taxes were not an issue for them.

- Business Plan and Capital Plan:

All three Territories indicated that their airports did have a Master Plan in place at the time of the Arctic 'A' transfer of 1996. Since then, most of them have had updates completed or are in the process of completing or starting them.

It was noted that two of the three territories did report on their establishment of a system based capital plan for their airports. These plans are updated and examined annually.

- Initiatives to maintain or achieve self-sufficiency:

All three Territories indicated that self-sufficiency was not a primary objective for them. Airports are operated much like utilities and are considered an essential asset to the communities they serve. Nevertheless, several cost reduction and restructuring measures have been put in place since the transfer of the airports to better match expenditures to the level of service offered. The annual levels of aircraft and passenger traffic using these airports were seen as inadequate to generate significant revenues.

- Current / future impediments to maintain or achieve self-sufficiency

The same issues facing most of the southern Category B airports are surfacing in the Territories. The small base population combined with the high cost of air transportation and a decline in overall economic activity are preventing airports from generating significant activity levels.

SECTION 7.0 GLOSSARY

"Catchment Area": For the purposes of this study, catchment areas were established as per a reasonable radius of the airport. All census subdivisions within that radius were included in the catchment area. Census data on the population was used to establish the characteristics of the population. The data used to establish these characteristics came from Statistics Canada census of 1996 and 2001.

"Employment level": percentage of the total population that is employed.

"Unemployment level": percentage of the total population that is unemployed.

"Not in the labour force level": percentage of the total population that is 15 years and older and that is not either employed or unemployed.

"Labour force": individuals 15 years and older who are working or looking for work (unemployed).

"Unemployment rate": percentage of the labour force that is unemployed.

"Average individual income": average reported employment income / earnings per individual.

"Average family income": average reported employment income / earnings per family.

"Primary sector": "An industry that produces the raw materials employed in an economy. Its products range from agricultural and fishing-industry products to products such as oil and gas, minerals, and pulp and paper, which have been subject to only a limited degree of processing. "

"Secondary sector": "Set of economic activities related to the production of physical goods from raw materials. It includes the manufacture of consumer goods and investment in construction. "

"Tertiary and quaternary sectors": "Set of economic activities related to the provision of services. It includes banking, insurance, commerce, transport, communications, tourism, and all sorts of consultancies. The term quaternary sector is sometimes used to encompass services related to knowledge, leisure and free time, such as spectacles and tourism." The tertiary and quaternary sectors were grouped for the purpose of the study as the data available from the 1996 census and the 2001 census was done using different breakdown of the industries of employment. The following table indicates which industries, as used by Statistics Canada for the census, were amalgamated into the four sectors for 1996 and 2001.

Industries, as reported in the Census, included in each sector

Sector	Census 1996	Census 2001
Primary	Agriculture & related services	Agriculture, forestry, fishing and hunting
	Fishing & trapping	Mining and oil and gas extraction
	Logging & forestry	
	Mining, quarrying & oil	
Secondary	Manufacturing	Utilities
	Construction	Construction
		Manufacturing
Tertiary & Quaternary	Transportation & storage	Wholesale trade
	Communication & other utility	Retail trade
	Wholesale trade	Transportation and warehousing
	Retail Trade	Information and cultural industries
	Finance & insurance	Finance and insurance
	Real estate operator & insurance agent	Real estate and rental and leasing
	Business service	Professional, scientific and technical services
	Government service	Management of companies and enterprises
	Educational service	Administrative and support, Waste management
	Health & social service	Education services
	Accommodation, food & beverage	Health care and social assistance
		Arts, entertainment and recreation
		Accommodation and food services
		Other services (except public administration)
		Public administration

APPENDIX A

AIRPORT OPERATOR VIEWS

General Observations

Divestiture has provided airports with some autonomy to make quick decisions and to become innovative in revenue generation and operational efficiency.

Airports have a negative view about their financial ability to meet safety and security regulatory requirements. CAR 308 is a recurring issue of concern due to the uncertainty of the amount of additional costs that will have to be incurred as a result of this regulation.

A number of innovative initiatives have been implemented by a large majority of airports in an attempt to achieve and maintain self-sufficiency. However, an overarching perception still exists that issues outside of the control of the airports, such as air services, regulatory creep, insufficient capital funding, and rising security, operations and maintenance costs, are major impediments to the goal.

Specific Observations

Whether Financial Self-sufficiency was Considered Possible at Transfer

At the time of transfer the majority of airports believed that financial self-sufficiency was possible beyond the term of the agreement's operating period. Sixty-one (61) percent were of this opinion primarily because they saw opportunities for increased fees, rationalization of operations (e.g. fire department), continued air carrier operations, and ACAP funding. Other airports indicated they had "infrastructure that was relatively new and the traffic level supported the existing conditions." Some airports indicated that they had recognized from the start that they were never going to be viable given that "O&M and maintenance capital restoration requirements far exceed its ability to generate revenue."

Whether Circumstances Have Now Changed

The majority of airports reported that circumstances had changed sufficiently to cause them to alter their expectations about the airport being financial self-sufficient. Sixty-seven (67) percent believed circumstances had changed, compared to 27% who were of the opposite opinion. The reasons given largely related to external circumstances beyond their control:

- Levels of activity have dropped due to SARS and the impacts of international trade disputes (e.g. softwood lumber).
- Airline restructuring, security changes as a result of 9/11 and continued instability throughout the industry due to world events and economic fallout.

- Imposition of greater costs to the entire industry by Transport Canada (CAR 308-safety and security regulations);
- No ACAP funding – “ACAP has 4 priorities in their system, but never seem to go past priority 2.”
- Shutdown of flight service station and relocation of Nav Canada staff from airport.

View on compliance with safety regulations and cost increases

Twelve of the twenty-three airports that responded to this question felt that the new safety regulations had increased costs. Although many agreed that CATSA had picked up some of the costs associated with the new security regulations many identified extra costs for such things as perimeter security and terminal reconfiguration that amounted to an average increase of between \$25K and \$50K.

Many expressed concerns over the implementation of CAR 308.

View on various issues and their possible impact on the airports financial capability

- *Airline restructuring / Air services changes:*

Eighteen of twenty-four responses identified airline restructuring and air service changes as having a negative impact on the financial position of the airport. They specifically pointed to the reduced service as a major cause in reducing their ability to compete and attract clientele.

- *Impact of enhanced security on passengers:*

Nine of twenty-three respondents stated that enhanced security measures had significantly reduced their ability to create a positive experience for their clients due to a restricted use of terminal space and hindrances imposed on passenger handling.

- *Insurance:*

Eighteen of twenty-four respondents stated that insurance costs had increased an average of 100% since divestiture.

- *Property Taxes:*

Only seven of twenty-one respondents identified property taxes as being an issue. Of the seven, two identified a significant impact on their financial position while a third airport was two years in arrears in paying property tax.

Initiatives taken since transfer to maintain or achieve self-sufficiency

A large majority (21) of the twenty-five airports that responded to this question identified a number of initiatives that had been implemented to offset operating costs and generate revenues with a goal to self-sufficiency. Three of the respondents stated that self-sufficiency was not a possibility in their case.

Initiatives identified as assisting in meeting the goal of self-sufficiency were:

- Economic development projects
- Imposition of user service fees
- Imposition of landing fees
- Marketing, planning and implementation
- Reduced staff levels
- Increased efficiencies in operation and maintenance
- Automated fuelling systems
- Multi-tasking
- Aggressive airline recruitment initiatives

The three airports (2 regional, 1 small) that indicated that self-sufficiency was not possible cited the following reasons as causes;

- Increasing costs
- Lack of sufficient business
- Lack of revenues

View on the impediments that will allow your airport to achieve/maintain financial self-sufficiency

Twenty-four airports responded and the major impediments to achieving and maintaining self-sufficiency were:

- Insufficient volume
- Regulatory creep (CAR 308 in particular)
- Economic condition of the industry
- Future capital funding needs due to an inability to implement effective capital plans
- Present condition of the infrastructure and current needs with no funding to address the need
- Operating cost increases such as insurance, fuel and security

The questionnaire asked the airports to detail their plans to meet those challenges. No airport responded.

Views on Community Groups

Sixty-one percent of airports considered contact with community groups to have increased compared to 36% who saw it as unchanged since transfer. Airports reported they now have direct involvement in the community through Chambers of Commerce or volunteer support groups, and also through the membership of local business or government leaders on their governing boards.

Only a small percentage of respondents believed that the divestiture of airports had decreased their ability to meet local needs. Across the different types of local needs the percentage of respondents viewing their ability as having decreased varied anywhere from a low of 2% (contact with community groups) to 17% for level of service. Decreased ability was attributed primarily to changes in carrier practices or traditional and general financial constraints described as “lack of funds.”

View on adjusting operations, fees or level of service.

Opinions were split between airports that saw this ability as either having increased or remaining unchanged. For example, 50% saw the ability to adjust operations, infrastructure and maintenance as having increased compared to 44% who considered it unchanged. For those that reported an increase reasons given usually related to the following comment from one airport: “Airport operations, level of service, staffing etc. are readily adjustable to local requirements, however, funding airport operations is a continuing long-term challenge.” One airport identified synergies with local municipality public works departments and another airport indicated the municipality provided additional funding in recognition of the economic benefits derived from a vibrant airport operation. Those airports that responded that the abilities were unchanged usually cited a continuing need to react to the actions of carriers, and their continuing “lack of financing” or concern about financial sustainability.

General Satisfaction

Airports held divergent views whether the community was generally satisfied with their post-divestiture activities. Forty-seven (47) percent saw it as unchanged compared to smaller percentage (35%) who saw it has having increased. Those airports that reported an increase usually referred to their enhanced ability to: consult with the community; market the airport; change operations and costs; and make decisions faster with no “bureaucracy.” “Communities are recognizing that it is now ‘their’ airport (involving a sense of pride and ownership.)” Airports that viewed community satisfaction as unchanged mentioned general financial circumstances such as: “the aviation community is not happy with us due to the high fees and the fact that we charge everyone.”

Airports used approaches such as the following for assessing local community needs:

- Customer satisfaction surveys
- Airport board
- Meetings with local councils, community groups and associations (e.g. Chamber of Commerce)
- Committees such as an airport marketing committee
- Public notices
- Suggestion boxes
- Open houses (e.g. Annual Airport Day) – general public invited

The general awareness of local needs and contact with community groups was perceived by a majority of airports as having increased since divestiture: “Clearly, local community operators and airport owner/operators (who also live in the local community) can react quicker and are generally more aware of local needs than remote managers (i.e. Transport Canada).” However, this increased awareness and contact appeared to be less directly reflected in the airports’ abilities to adjust fees, operations or level of service to meet local needs. Opinions were split between airports that saw these as either having increased or remaining unchanged, but this was largely explained by changes in external circumstances since divestiture such as airline restructuring.

APPENDIX B

OTHER EXTERNAL STAKEHOLDER VIEWS

General

At various stages of the study, external stakeholders such as Provinces, Territories, the Air Transport Association of Canada, the Federation of Canadian Municipalities the Canadian Airports Council, the Regional Community Airports Coalition of Canada, and other provincial airport and aviation associations, were asked to provide their views and comments on the viability of regional and small airports.

All external stakeholders agreed that the need exists for continued external funding for regional and small airports. Concerns were also raised regarding the financial impact new federal regulations such as CAR 308, winter maintenance, new security measures, and increasing insurance requirements, would have on the long term viability of these airports. From a stakeholder point of view, Transport Canada should have concentrated its efforts on the development of solutions to ensure the viability of these regional and small airports, instead of continuing to study the issue.

Provinces and Territories

In 2001, the Provinces commissioned a study on the viability of smaller Canadian airports (Study conducted by Sypher). The study included 26 airports spread across the country and chosen by the Provinces. It concluded that:

The information collected for this study shows that most of the smaller airports have significantly reduced costs and increased revenues since devolution. Nonetheless, many of the smaller airports in Canada will continue to need external funding for operations and capital over the long term.

Provinces and Territories raised the following issues:

- TC should have acknowledged the existence of a similar study conducted by the Provinces in 2001 and should have used the results of this study as the starting point for its work.
- TC should direct its efforts towards providing solutions instead of focusing on the analysis of the viability of these airports.
- Formal recommendations should be brought to federal decision makers to ensure that the long-term financial viability of regional and small airport infrastructure is preserved.

All three Territorial governments indicated at the beginning of the study that their airports are not comparable to those in the south as they are managed on a system

basis and have a different mandate (social and accessibility). From their point of view, Territorial airports should not be included in the study.

Airport/ Aviation Associations

Overall messages:

- The study should have included smaller NAS airports in its analysis.
- The Steering Committee should have included members from the airport community and from the Provincial Transportation Ministries. Transport Canada should go beyond its internal structure.
- The study is being prepared internally by Transport Canada personnel. This may create a bias (or perception of bias) regarding any impacts on viability caused by costs of increasing regulations and new legislation.
- It is time the federal government moved beyond considering only the impact of their divestitures on communities and established a financial support framework for all airports in Canada, in support of Canada's economy.
- The drivers and factors affecting the financial viability of airports are the regulatory requirements (such as fire-fighting), which can vary for the category of activity supported, and are largely independent of traffic volume; an airport supporting scheduled services requires certain facilities and services, which cost the same whether 10,000 or 100,000 passengers are served.
- Transport Canada should move beyond its own narrow jurisdiction and show the leadership to involve all stakeholders in developing a framework of financial support for all airports to ensure Canada maintains the airports infrastructure required to support and develop our wider economy for the benefit of all Canadians.

Specific actions the Government of Canada should take:

- Continue to ensure open, competitive service in the airline industry, but in regions where competition is inadequate, fulfill its mandate to ensure reasonable service and air fares to all regions of Canada;
- Recognize the limitations of the Airports Capital Assistance Program (ACAP) and provide sufficient funds to expand the eligibility criteria to include airports without scheduled passenger service and smaller National Airports System (NAS) airports;

- Adopt a new funding mechanism for operating costs of small airports as recommended by the *Canada Transportation Act* Review Panel report;
 - Eliminate the Air Travellers' Security Charge;
 - Eliminate NAS airport rents;
 - Monitor closely the use of service withdrawal provisions of the Canada Transportation Act, to ensure that municipal governments are properly consulted and that remedial measures are taken to ensure adequate air service is provided to all regions of the country.
 - Immediately hold intensive, effective consultations with municipal governments and other relevant stakeholders regarding the specific effects of airport viability on communities.
-