

Air Service Opportunities Fund

Recommendation

That the June 7, 2021, Urban Planning and Economy report UPE00668, be received for information.

Executive Summary

Edmonton Global and the Edmonton International Airport are calling for the urgent establishment of a new \$15 million regional Air Service Opportunities Fund to support flight attraction as a response to the COVID-19 pandemic on air travel. The Edmonton Metropolitan Region, Edmonton International Airport and Edmonton Global Boards met with regional mayors on May 27, 2021, to discuss a funding formula. There was agreement on the need for a fund, with the anticipated funding mechanism being advanced via a motion for an Edmonton Global Shareholder extraordinary funding request at a meeting on June 10, 2021.

This report details an option for the City of Edmonton to contribute funding totaling \$9.88 million over three years towards the establishment of the new fund (\$1.94 million in 2021; \$3.97 million in 2022; and \$3.97 million in 2023), subject to a majority vote by Edmonton Global shareholders. The fund would be administered by Edmonton Global and used by the Edmonton International Airport to incentivize airlines to re-establish direct international flights to and from the region. The City of Edmonton's share of this funding (\$9.88 million) would be based on the Edmonton Global cost sharing formula for requisitions, which is derived based on share of equalised assessment and population in the region. Notwithstanding the identification of a total amount that each Edmonton Global shareholder municipality would contribute, it is anticipated that additional discussions related to cost share and benefit may take place for 2022 and 2023 funding, which could impact the relative cost share of each municipality for those years.

The Air Service Opportunities Fund is intended to ensure that the region can remain competitive globally to attract investment, support the visitor economy and get goods to and from the market by attracting direct flights to key destinations. Edmonton Global has indicated the fund would only be leveraged once an airline has committed to restoring or developing a new flight.

Report

City Council has identified Regional Prosperity as one of its four 10-year goals to realize the vision of ConnectEdmonton. Achieving the Regional Prosperity goal requires a strong policy framework, as outlined in The City Plan, a commitment to action in creating and supporting initiatives, infrastructure and programs that are central to our region's economic success, as outlined in the Edmonton Economic Action Plan, and a commitment to join together with partners to leverage funding and align to a common purpose to position the Edmonton Metropolitan Region to compete globally, as embodied by collaboration through Edmonton Global.

The 2017 creation of Edmonton Global, the region's economic development corporation of which Edmonton is a shareholder, is emblematic of a growing regional imperative towards aligned and integrated economic development activity.

Through dialogue first at the Airport Accord table among the City of Edmonton, City of Leduc, Leduc County and Edmonton International Airport, and subsequently at the Edmonton Global table, discussions have occurred on the central role that a successful, connected Edmonton International Airport plays in our region's place in the global economy and how to catalyze its future success.

The Importance of the Edmonton International Airport and Direct Flights

The Edmonton International Airport (EIA) is a vital piece of regional infrastructure that impacts both our region's quality of life and our region's economic development. The mission of the Edmonton International Airport is to drive the region's economic prosperity through aviation and commercial development.

Maintaining and increasing the number of direct passenger and cargo flights is essential to sustaining and driving regional growth. All other site selection factors being equal, investors will seek destinations that have easier, more direct, access. As exporters' cargo becomes more expensive and less competitive sitting on a tarmac waiting for a connecting flight, the Edmonton region becomes more isolated and less globally relevant if presented with a limited number of direct domestic and international flights.

Previous City of Edmonton Support

The City of Edmonton is intrinsically connected to the Edmonton International Airport, which is demonstrated by the City's and the former Edmonton Economic Development Corporation's long history of collaborating with and supporting the Edmonton International Airport and its growth plans.

Examples of past City of Edmonton collaboration with the Edmonton International Airport include, but are not limited to, supporting flight consolidation at the Edmonton

International Airport; partnering in campaigns to redirect Edmontonians who connect through Calgary to instead use the Edmonton International Airport; supporting inaugural flights to key international destinations; and partnership, through Explore Edmonton (formerly Edmonton Tourism), on flight promotion.

Economic Impact and Challenges

The Edmonton International Airport has reported that prior to the pandemic, it had an annual economic output to the regional economy of \$3.2 billion, supporting 26,000 jobs. Today, the situation is in stark contrast. The Edmonton International Airport has been extremely hard hit by impacts of the COVID-19 pandemic and related limitations and reductions to international and domestic flights.

At the May 7, 2021, Edmonton International Airport Annual Public Meeting, the Edmonton International Airport shared the following impacts that COVID-19 has had on airport operations:

- The federal government designated four airports as ports of entry for international flights. Edmonton International Airport was not selected as one of these ports of entry, which had a significant negative impact on passenger and cargo traffic.
- Pre-COVID, the Edmonton International Airport had 52 direct flights daily; currently there are 13 direct flights.
- In 2020, the Edmonton International Airport generated \$103 million in revenues. This is a \$128 million decrease from 2019 revenues.
- Edmonton International Airport recorded a net loss of \$89.3 million in 2020.
- 2020 Passenger demand fell by 68 percent compared to 2019. In some months, demand fell by 95 percent.
- Ninety percent of revenues are tied to passenger traffic, so significant budgeting measures have been necessary; operations budgets were cut by \$50 million, capital spending was cut by 75 percent and workforce reduced by 30 percent.

Air Service Opportunities Fund

Amidst the critical situation at the Edmonton International Airport, and with the need to build back, and build upon, the previous share of direct flights to support regional connectivity, Edmonton Global, together with the Edmonton International Airport, has proposed the creation of a new Air Service Opportunities Fund totaling \$15 million. Edmonton Global and Edmonton International Airport have made a request of Mayors in the Edmonton Metropolitan Region that Edmonton Global member municipalities share the one-time costs over a three-year period to immediately establish this \$15 million fund.

Based on the Edmonton Global cost sharing formula for member requisitions, which is derived based on share of equalized assessment and population in the region and being applied to determine cost share for this initiative, the City of Edmonton's

contribution would be estimated at \$9.88 million broken out over three years (\$1.94 million in 2021; \$3.97 million in 2022; and \$3.97 million in 2023).

While municipalities in the region are presently identified as the sole contributors to the fund, Edmonton International Airport has indicated a number of in-kind contributions to supporting and sustaining new flights. In addition, opportunities to approach other orders of government to participate in the fund are expected to be pursued by Edmonton Global.

Fund Governance and Eligible Uses

Edmonton Global proposes to oversee the \$15 million fund and acknowledges that transparent governance over this fund would be a key component to ensure success. This would include a regular summary of the opportunities pursued, investments made and reports on the key outcomes.

Administration agrees with the requirement for transparent governance of any new fund. The proposed administration of this fund by Edmonton Global alongside key measures and transparent outcome reporting would be required to provide a level of accountability and safeguard the use of tax dollars.

Third-party management of this fund by Edmonton Global provides opportunities for the City of Edmonton and other member municipalities to monitor and provide shareholder oversight over the use of the fund.

A key condition of success for an air service incentive fund is that it be used solely by Edmonton International Airport for the explicit purpose of maintaining existing direct flights, restoring flights cancelled through COVID-19 and the attraction of new flights. It should not be used to attract or subsidize retail, commercial and industrial investment to the Edmonton International Airport lands. The fund would only be used once an airline has committed to restoring or developing a new flight, providing assurance of a return on investment and to ensure the fund delivers a strong return on investment.

Next Steps

If directed to proceed, the City's contributions to this fund for 2022 and 2023 should be conditional on achievement of metrics and outcomes to the satisfaction of the City Manager.

Informed by the dialogue and decisions of individual City Councils on whether to support the one-time investment in the fund, many of which are taking place in regional municipalities in early June, Edmonton Global intends to host an extraordinary shareholder meeting to vote on establishing the fund on June 10, 2021. This decision is intended to align in timing to airline planning and decision-making cycles.

Budget/Financial

If City Council chooses to fund this request, the source of funds for the City of Edmonton's projected \$9.88 million one-time contribution over three years would be recommended as follows:

- \$2.62 million from the COVID-19 funds set aside within the appropriated Financial Stabilization Reserve. Use of \$2.62 million from the COVID-19 funds in the appropriated Financial Stabilization Reserve would deplete this fund.
- \$3.74 million from the 2021 financial strategies operating budget.
- \$3.52 million reduced Pay-as-you-go operating transfer to the Pay-as-you-go Capital Reserve. To limit the immediate impact on the capital program and to mitigate the impact of further economic slowdown on the local economy and job losses as a result of the pandemic, the capital program will be able to continue as originally planned over 2021 to 2022. The PAYG Capital Reserve will be reimbursed for this amount through a reduction in capital expenditures intended to be funded through Pay-as-you-go in the 2023 capital budget. As a reminder, City Council previously approved a \$46.5 million reduction in the Pay-as-you-go transfer in 2020, in order to address the 2020 COVID-19 operating budget shortfall, with repayment from Pay-as-you-go funding in 2023. This would now create a combined reduction of \$50.02 million to Pay-as-you-go funding in the 2023 capital budget.

The funds from the above sources totalling \$9.88 million would be transferred to the appropriated Financial Stabilization Reserve and released annually based on the estimated cash flows provided: \$1.94 million in 2021; \$3.97 million in 2022; and \$3.97 million in 2023.

The use of these funds for this purpose limits the City's ability to respond to future budget challenges as a result of the pandemic.

As noted above, to ensure accountability and appropriate use of public money, the annual payments in 2022 and 2023 would be held in abeyance and only be released once agreed upon metrics and targets are achieved, all to the satisfaction of the City Manager.

While it is anticipated that the City of Edmonton's three-year total share would remain at \$9.88 million, Edmonton Global has indicated that discussions may unfold for 2022 and 2023 contribution amounts to consider how costs and benefits are aligning, which may impact the relative cost share of individual municipalities for those years.

Public Engagement

The City has not undertaken any public engagement specific to this report. The report was informed by existing plans and regional dialogue. Administration has engaged

with Edmonton Global and Edmonton International Airport to understand the goals and possible implications related to establishing an Air Service Opportunities Fund.

Corporate Outcomes and Performance Management

Corporate Outcome(s): Edmonton Region is a catalyst for industry and business growth.			
Outcome(s)	Measure(s)	Result(s)	Target(s)
Edmonton's economy grows	Edmonton CMA real GDP growth rate (Conference Board of Canada)	-0.6% (2019)	Positive percent change
Non-residential property value increases	Value of Edmonton CMA non-residential building permits	\$1,403,276,000 (2020); -12.4 percent change from 2019	Positive percent change
Corporate Outcome(s): Edmonton has a globally competitive and entrepreneurial business climate			
Edmonton's economy supports job growth	Employment in Edmonton (City of Edmonton, Stokes Economics)	560,000 employed (2019)	Additional 121,000 jobs in Edmonton (2030)

Others Reviewing this Report

- M. Persson, Deputy City Manager and Chief Financial Officer, Financial and Corporate Services
- C. Owen, Deputy City Manager, Communications and Engagement
- K. Fallis-Howell, Acting City Solicitor