



# Consolidated Review of Small Airport Viability Studies

March 2006

## **Review of Small Airport Studies**

1. *Community Airports Survey*  
Prepared for Federation of Canadian Municipalities by London Consulting, July, 2001
2. *Study of the Viability of Smaller Canadian Airports*  
Developed for Consideration by: Provincial Departments Responsible for Transportation, prepared by Sypher:Mueller International Inc., August 2002
3. *Air Access in Atlantic Canada: Challenges and Opportunities*  
Report of the Atlantic Liberal Caucus Task Force on Air Access in Atlantic Canada, October 2002
4. *Regional and Small Airports Study*  
Transport Canada, July 2004
5. *Small Airport Challenges Workshop, Post-Workshop Report*  
Westac and The Van Horne Institute, November 2004
6. *Transportation as an Economic Growth Engine: Challenges, Opportunities and Policy Suggestions*  
A report prepared by Dr. Michael A. Goldberg, University of British Columbia for the BC Progress Board, December 16, 2004
7. *A Socio-Economic Impact Assessment of Select Alberta Airports*  
Prepared for Aviation Alberta by RP Erickson & Associates, January, 2005

## **1. Community Airports Survey**

This study was prepared for the Federation of Canadian Municipalities and its objective was to “determine the current and anticipated future financial status of the country's small airports in order to facilitate discussions with Transport Canada”. It involved a questionnaire that was distributed to a select group of small airports; 53 responses were received.

The study identified a number of challenges for small airports.

- Staffing levels and operating expenditures suggest that opportunities for efficiencies have been exhausted.
- Traffic volumes and service levels constrain the ability to achieve cost recovery of airside operations through aeronautical fees and charges.
- Opportunities to attract alternative revenue sources are limited by the economic development potential of the local community.
- Consolidations within the airline industry have resulted in lower revenues and reduced services, which frustrates development.
- Legislative restrictions on debt financing eliminate commercial financing options for many airports and others are unable to meet basic lending criteria due, at least in part, to instabilities in the aviation industry.
- The dependence on government funding programs is crucial to survival, yet current demand for the ACAP exceeds the supply.
- Eligibility restrictions on ACAP deny funding to community airports without scheduled passenger service but who, nevertheless, provide essential economic and social services to the community.

## **2. Study of the Viability of Smaller Canadian Airports**

This study was commissioned by the Provincial departments responsible for transportation. A selection of 26 airports, selected by the provinces, and having fewer than 200,000 annual pax was studied. The objectives were to:

- Identify the airports' current financial situation and how that situation has evolved over the past few years;
- Forecast the future financial position and viability of these airports; and,
- Identify potential problem areas for these airports.

Conclusions:

Airports were divided into 3 groupings:

- Viable, that is with sufficient revenues to cover operating costs and debt service on forecast capital investments (net of ACAP contributions);
- Self-sustaining – with sufficient revenues to cover cash operating costs; and,
- Not self-sustaining – airports with insufficient cash flow to meet either of the above two tests.

The study identified three mechanisms to achieve viability: increased efficiency, increased revenues and traffic growth. However, obstacles to achieve self-sufficiency were identified.

- Substantial efficiency gains have already been achieved and are reflected in the current financial positions of the airports;
- Revenue growth at many of the airports has already been significant in the past several years;
- New federal regulations have the potential to drive up airport costs and reduce revenues; and,
- Given the history of declining traffic levels, significant traffic growth appears to be unlikely for most of the smaller airports.

Factors affecting viability were determined to be:

- Most significantly, passenger traffic volumes. The viable airports have, on average, over five times the traffic of the not self-sustaining airports, and 1.5 times the traffic at the self-sustaining but not viable.
- The second significant factor is the magnitude of the AIF/PFC. Under the hypothesis of a uniform \$20 AIF/PFC being applied to all the study airports, 13 of the 26 airports are projected to be viable at current traffic levels. At the currently not self-sustaining airports, however, this implies average per enplanement fees of \$62.00 (plus the \$24 security fee per round trip), making it difficult to maintain current traffic levels.

Finally, the report identified the need for financial support:

Since devolution, most of the smaller airports have reduced their costs and increased commercial and aeronautical revenues. The transition to local operation of airports has clearly demonstrated that local operation is efficient, and that regardless of a potential need for ongoing external financial support, local operation should be the cornerstone of any future structure for airport operations. Nonetheless, many smaller airports in Canada will continue to need external financing for operations and capital over the long term.

Recognizing that external financial support will be an ongoing requirement for many of the smaller airports and that there is a need to continue the transition to a business-like footing, there should be a national dialogue on external support and business enhancement.

### **3. Air Access in Atlantic Canada: Challenges and Opportunities**

Seven members of the Atlantic Liberal Caucus, including four MPs and three senators, prepared this report.

The study made 20 recommendations in all, three of which referred specifically to airports but all of which were aimed at improving air service to Atlantic Canada.

The Government of Canada:

1. Immediately formulate and adopt an air transportation policy that promotes healthy and sustainable competition and that takes into account the requirements of all areas of this country, including all remote and rural regions.
2. Adopt policies that promote and sustain healthy competition within the airline industry.
3. Vigorously enforce all government laws and regulations that prohibit anti-competition behaviour in the airline industry.
4. Prior to making any changes to the laws or regulations dealing with the operation of smaller regional airports, conduct all necessary risk analysis and cost benefit studies.
5. Should any legislation or regulation be enacted or adopted by the Government of Canada that increase expenses to smaller regional airports, then these expenses should be paid for by the Government of Canada.
6. Exclude the application of any security fee on any passenger traveling on an aircraft whose capacity is 60 passengers or less.
7. Apply the fee to all segments of the airline industry, including the air cargo and air courier industries.
8. Provide the taxpayers with accurate and timely information as to the present and projected future cost of providing the enhanced security service.
9. Reduce the fee to an amount that takes into account only the cost providing this enhanced security service.
10. Continue its efforts to conclude reciprocal cabotage agreements with US carriers.
11. Increase the foreign ownership restriction on Canadian Airlines from 25% to 49%.
12. Grant the right of establishment to all foreign carriers that meet all Canadian regulations and guidelines.
13. Assist any Canadian carriers who want to establish new or expand existing linkages between northeastern United States and Atlantic Canada.
14. Allow any American carriers entering Atlantic Canada to code share, on reasonable terms, with the dominant Canadian carrier, to allow access to other regions in Atlantic Canada.

15. Conclude negotiations with US authorities that will see the establishment of a US preclearance facility at the Halifax International Airport.
16. Extend and enhance the existing ACAP program to include operating expenses for smaller non-NAS airports, and that smaller NAS airports be eligible for funding for capital expenditures.
17. Implement a program whereby any regional carrier may, on reasonable terms, interline or code share with the dominant Canadian carrier.
18. Examine all existing Government policies and programs and ensure that all policies and programs are such that create an environment that encourages the growth and viability of regional air service.
19. Eliminate any policies that are found to be counter-productive to the development of regional air service in Atlantic Canada.
20. Adopt a small carrier strategy that would encourage the growth of regional air service.

In conclusion, the Chair of the task force was quoted as follows:

“It is the view of the taskforce that the problems of this region have to do with policy as much as financial support. We require a debate on our regional air transportation system, and specifically how this system relates to achieving some of the broader social and economic objectives of the region.”

#### **4. Regional and Small Airports Study**

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.

#### **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 cash flow 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 from 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.

## **5. Small Airport Challenges Workshop, Post-Workshop Report**

The workshop, organized by Westac and the Van Horne Institute, was attended by representatives from airports, provincial, municipal and territorial governments and Transport Canada. The results of the workshop were expressed under four headings: (summarized)

Opportunities to cut costs ~ looking under every stone

- Small airports require the active support of the local community.
- Staffing levels have been 'right-sized". Small airports need people who are flexible and able to multi-task.
- Airports should take opportunities to work more closely with air carriers
- Airports should seek to recover more of their operating costs from non-aviation sources.
- Partnering with others creates opportunities to grow passengers.

Still have challenges to overcome

- Communities should not expect their airport to be self-sufficient.
- One size should not fit all when it comes to regulations – federal government should conduct a risk assessment to ensure that unnecessary regulations do not exist.
- Small airports must start succession planning now to ensure they have people with the proper skills to operate airports in the future.

Airports can do more

- Airports should right size their runways and facilities.
- Airports should be realistic about growth opportunities and the need for additional capacity.
- The airport community should work together more closely, when dealing with governments.

Others to help

- Small airports need help from others – governments, air carriers, larger airports, communities and local businesses and industry to survive.
- The federal government was urged to continue the ACAP program.
- The federal government should contribute additional funds to small airports to more closely match the rent paid by the large airports.

- Other departments within the federal and provincial governments could fund small airports.
- Provincial and territorial governments were encouraged to provide a rebate on the aviation fuel tax.
- Local communities can help small airports by dedicating a portion of property taxes paid by the airport to help fund the airport.
- Business should provide financial assistance to their local airport.
- Larger airports can help by sharing their expertise in areas such as marketing and air service development.

## **6. Transportation as an Economic Growth Engine: Challenges, Opportunities and Policy Suggestions**

The BC Progress Board prepared a paper following the BC Ministry of Transportation's plan for the future, *Opening up BC: A Transportation Plan for British Columbia, 2003*. The paper "seeks to provide a broad overview and discussion of some of the key challenges, opportunities and public policy issues facing transportation in British Columbia."

The report separated airports into categories: NAS airports and regional and local airports. It was acknowledged that regional airports face unique challenges not faced by the four National Airport System airports.

- The cost of firefighting has increased and local airports must foot the bill with no or diminishing subsidies from the federal government.
- Small airports are facing a rising cost base due to a variety of federal taxes and regulations including: airport security tax, rising fuel costs, NAV Canada charges.
- With the arrival of WestJet in a number of secondary airports, the viability of adjacent airports is questioned as passengers will often drive extra distances to get better service.

As a result, the report concludes, "local and regional airports outside the National Airport System (NAS) must become much more strategic and cooperative." Recommendations for airports include:

- Some smaller airports are finding it difficult to meet growing security and safety requirements in the absence of significant federal support. The federal government should put more back directly or through arrangements with YVR and its regional feeder system in the form of lower YVR rental fees.

On a multi-modal level, the report concludes:

- Transport Canada, Foreign Affairs Canada, International Trade, Citizenship and Immigration and other agencies whose mandates affect

the movement of people and goods should work together to forge an integrated national, provincial and local policy framework within which transportation can flourish.

## **7. A Socio-Economic Impact Assessment of Select Alberta Airports**

This study was conducted for Aviation Alberta following a detailed facility assessment of Alberta's airports by the Alberta Action Strategy Group. The study focused on an assessment of the socio-economic value of Alberta's airports to the communities they serve.

The study analysis revealed some financial challenges faced by the small airports. For example:

- Tier I airports, regional carrier nodes, operate in a deficit position for operating and maintenance with municipalities providing, on average, \$77,000 annually. None has the resources to finance capital improvements.
- Tier II airports, significant GA, recreational or flight training, operate in a deficit with municipalities providing, on average, \$21,000 annually. Only two were able to finance capital requirements.
- Tier III airports also operated in a deficit with local municipalities contributing \$45,000 on average. None has the financial resources to fund capital requirements.
- In all cases, traffic is uniquely determined by local demand.

### **Common Issues:**

1. Traffic. Several of the studies cited traffic as a factor affecting viability. There were a number of reasons why smaller airports were more susceptible, including migration from rural areas. Clearly, there is a threshold below which an airport is not able to be self-sufficient.

2. ACAP. The airports that are able to cover their operating costs still need help with capital investment. Most airports rely on ACAP funding but the fund is oversubscribed and limited to airports with scheduled service and projects that are related to airside safety only.

3. Federal Regulations. Several studies cited rising costs to meet federal regulations as a threat to viability. It was felt that Transport Canada adopted a "one size fits all" attitude to regulations that imposed unnecessary and onerous obligations on small airports for little or no return.

4. Airlines. Small airports have suffered financial losses from downsizing and restructuring. The introduction of WestJet and discount fares has distorted the marketplace by favouring one airport over others in a region. Some studies recommended policies should be implemented to encourage competition.

5. Community Support. Support from municipalities and provinces varies greatly. Many small airports depend on support from municipalities either in the form of operating subsidies or reduced taxes. It was recommended that provinces reduce or eliminate tax on aviation fuel.

6. AIF/PFC. The Sypher study revealed that implementing a PFC enabled most small airports to remain self-sufficient on operating costs.

7. Rent. Small NAS airports are hampered by rent payments. Some studies suggested that the revenue collected in the form of rent from the NAS airports be reinvested in the smaller airports to a greater degree than it is now.