INFORMATION UPDATE

TO:	Mayor and Members of Council
DATE:	November 13, 2020
SUBJECT:	John C. Munro Hamilton International Airport Lease Overview (City Wide)
WARD(S) AFFECTED:	City Wide
SUBMITTED BY: **SIGNATURE:**	Tony Sergi Senior Director, Growth Management Planning and Economic Development Department

The purpose of this Information Update is to provide the following information to Council, as requested at the October 15, 2020 Airport Subcommittee;

(a) an overview of the consideration and benefits that the City receives under the John C. Munro Hamilton International Airport lease with TradePort International Corporation; and
(b) an overview of the rent and municipal payments paid by comparator Canadian airports.

In 1996, TradePort International Corporation (TIC) was selected by the City of Hamilton to manage and operate the John C. Munro Hamilton International Airport (HIA) under a 40-year lease agreement. Today, TIC is a wholly owned subsidiary of Vantage Airport Group, which manages a network of ten airports on two continents. Since taking over the operation of the HIA, TIC has had considerable success growing both the passenger and cargo traffic at the facility.

TIC's 2019 Annual Report outlines the following highlights:

- Over the last three years, the airport has been one of the fastest growing airports in North America;
- 955,373 passengers travelled through the airport in 2019, representing a 32% growth compared to 2018, 60% compared to 2017 and 187% compared to 2016;

- An increase of 21% in cargo activity since 2016 as a result of a growing e-commerce sector in Ontario fulfilled by the airport's cargo partners Cargojet, DHL, UPS, Purolator and Canada Post;
- In 2019, DHL Canada broke ground on its new 200,000 square foot facility that represents a $100 million-dollar investment by DHL in Hamilton;
- KF Aerospace also commenced construction of its $30 million expansion of its aircraft maintenance, repair and overhaul facility at the airport in 2019;
- In 2018, the airport began the first phase of a $38.89 million Airfield Rehabilitation and Modernization Project that will improve its two main runways, supporting taxiways and lighting systems over the next four years;
- Since 1996, TIC and its business partners have invested $243.7 million, which has generated $24.6 million in additional property tax revenue for the City of Hamilton; and,
- Through airport activity, HIA and its business partners contribute $385.7 million in gross domestic product (GDP), produce an economic output of $1.2 billion, and create over 3,400 jobs for Hamilton and the surrounding region.

While the specific terms of the lease agreement with TIC are confidential, as the subject matter pertains to a position, plan, procedure, criteria or instruction to be applied to any negotiations carried on or to be carried on by or on behalf of the municipality or local board, under the terms of the lease with TIC, the City receives financial consideration in the following forms:

1) Payments that arise from the lease's percentage rent formula; and,
2) An assessment fee in lieu of the taxes.

Based on the HIA's financial performance, TIC pays Percentage Rent to the City in monthly instalments each year. Of the total Percentage Rent that is paid to the City under the agreement:

- 50% goes to the City without restrictions (a net levy contribution);
- 25% is allocated to a joint marketing reserve, which is dedicated to marketing HIA; and,
- 25% goes to an Airport Capital Reserve dedicated to funding the infrastructure required to facilitate growth.

The second payment that the City receives, is an Assessment Fee in lieu of the taxes on the exempt assessed value of the HIA property.

The table below, provides a summary of the total payments that the City has received from TIC in each of the last 5 years:

Year	Percentage Rent	Assessment Fee	One Time Special Payments:	Total:
2019	$646,879	$350,000		$996,870
2018	$596,416	$300,000		$896,416
2017	$571,124	$200,000	$200,000	$1,021,124
2016	$339,329	$150,000		$539,329
2015	$362,766	$100,000		$512,766

Appendix "A" provides a table comparing the total 2019 rent and municipal payments in lieu of taxes (PILTs) that were paid by 19 other Canadian airports. The other 19 Canadian airports listed in Appendix "A" are owned by Transport Canada, which benefits from the rental payments but would not receive the benefit of the PILTs, which would be paid to the respective municipalities. In contrast, as both the landlord of the HIA and the municipality in which the property is located, the City of Hamilton benefits from both rental payments and the PILTs (i.e. the Assessment Fee). For the purpose of the analysis completed in Appendix "A", both the 2019 rent and PILTs are included to provide a "like-for-like" comparison.

Based on this analysis, the average rent and PILTs as a percentage of the 2019 revenues at the 20 comparator airports was 8.5%. When looking exclusively at mid-sized Canadian airports that would be the best comparators to HIA, the average rent and PILTs as a percentage of 2019 revenues was 7.5%. This sample includes Victoria International Airport, Regina International Airport and Saskatoon John G. Diefenbaker International Airport, which all had 2019 revenues in the range of $25M- $40m (HIA's 2019 revenues were $27.7M). In Hamilton, based on HIA's stated revenues for 2019, and the combined Rent and the Assessment Fees received by the City, staff estimate that the total payments that the City receives is approximately 3.6% of total HIA revenues (up from 3.4% in 2018). Based on this measure, HIA would rank 17th out of the 20 airports listed in Appendix "A" to Report PED20189.

In a news release dated March 20th, 2020, the Federal Government announced that it would be waiving ground lease rents from March 2020 through to December 2020 for the 21 airport authorities that pay rent to the federal government (which includes all of the airports listed in Appendix "A"). This support was to help airports reduce cost pressures and preserve their cash flow as they deal with the effects of COVID-19 on their revenue streams. Since the HIA is owned by the City of Hamilton and not Transport Canada, TIC is not able to take advantage of this federal rent relief. It should also be noted that the airports in Appendix "A" which are entirely owned by Transport

Canada, are exempt from paying Federal and Provincial income taxes. This Federal and Provincial income tax exemption does not apply to TIC.

For further information, please contact Ryan McHugh at (905) 546 2424 ext. 2725.

Attachments:

Appendix “A” – 2019 Canadian Airport Rental Summary

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Appendix "A"

2019 Canadian Airport Rental Summary*

Airport	Airport Code	2019 Rent Paid	2019 Municipal Payments In Lieu Of Taxes (PILT)	Total 2019 Rent & PILT	2019 Total Airport Revenue	Rent As % of Revenue	Rent & PILT As % of Revenues
Montreal Pierre Elliott Trudeau International Airport	YUL	$ 76,600,000	$ 39,900,000	$ 116,500,000	$ 707,000,000	10.8%	16.5%
Quebec City Jean Lesage International Airport	UQB	$ 4,276,662	$ 5,675,106	$ 9,951,768	$ 68,627,401	6.2%	14.5%
Calgary International Airport	YYC	$ 43,778,000	$ 17,910,000	$ 61,688,000	$ 431,963,000	10.1%	14.3%
Toronto Pearson International Airport	YYZ	$ 170,803,000	$ 38,382,000	$ 209,185,000	$ 1,521,256,000	11.2%	13.8%
Vancouver International Airport	YVR	$ 60,288,000	$ 16,700,000	$ 76,988,000	$ 571,752,000	10.5%	13.5%
Ottawa MacDonald-Cartier International Airport	YOW	$ 10,530,000	$ 5,475,000	$ 16,005,000	$ 138,100,000	7.6%	11.6%
Halifax Stanfield International Airport	YQM	$ 8,449,000	$ 1,610,000	$ 10,059,000	$ 113,375,000	7.5%	8.9%
Edmonton International Airport	YEG	$ 19,999,000	**	$ 19,999,000	$ 231,651,000	8.6%	8.6%
Victoria International Airport	YYJ	$ 1,851,280	$ 1,519,846	$ 3,371,126	$ 39,170,690	4.7%	8.6%
Winnipeg James Armstrong Richardson International Airport	YWG	$ 9,739,999	$ 2,200,000	$ 11,939,999	$ 139,781,000	7.0%	8.5%
London International Airport	YXU	$ 189,000	$ 857,000	$ 1,046,000	$ 12,695,000	1.5%	8.2%
St. John's International Airport	YYT	$ 2,878,000	$ 759,000	$ 3,637,000	$ 49,292,000	5.8%	7.4%
Regina International Airport	YQR	$ 993,151	$ 986,224	$ 1,979,375	$ 28,058,464	3.5%	7.1%
Saskatoon John G. Diefenbaker International Airport	YXE	$ 1,397,085	$ 909,847	$ 2,306,932	$ 33,607,522	4.2%	6.9%
Prince George Airport	YXS	$ 291,939	$ 231,441	$ 523,380	$ 9,268,971	3.1%	5.6%
Thunder Bay International Airport	YQT	$ 207,542	$ 422,880	$ 630,422	$ 12,888,169	1.6%	4.9%
Charlottetown Airport	YYG	$ -	$ 514,878	$ 514,878	$ 11,142,023	0.0%	4.6%
John C. Munro Hamilton International	YHM	$ 646,879	$ 350,000	$ 996,879	$ 27,711,300	2.3%	3.6%
Gander International Airport	YQX	$ 63,410	$ 183,447	$ 246,857	$ 10,484,422	0.6%	2.4%
Fredericton International Airport	YFC	$ 61,000	$ 47,000	$ 108,000	$ 11,596,000	0.5%	0.9%

* All figures were obtained from the public 2019 Annual Reports and Financial Statements of each respective Airport.

**Although Edmonton International Airport does pay PILTs, their 2019 Financial Statements did not break this figure out in granular detail.