

Appendix 7

Backgrounder: Saskatoon Airport Authority Tax Abatement Agreement

Issue

The City of Saskatoon (the City) and the Saskatoon Airport Authority (SAA) have a City Council approved tax abatement agreement that specifies the criteria to determine the portion of taxes that are to be abated in a year and the property taxes payable to the City. The agreement uses passenger volumes in a base year to determine the amount of property taxes payable to the City. Air travel in the first two quarters of 2020 has been severely curtailed as a result of the COVID-19 pandemic. Airlines and airports have indicated that passenger traffic volumes have fallen by over 90% relative to the same time in previous years. For example, the SAA reports that passenger volumes are 98% below 2019 levels. As a result, the SAA is requesting an amendment to the agreement to use 2020 passenger volumes to determine the amount of property taxes payable to the City in 2020. The request is estimated to reduce City property taxes by approximately \$510,000.

Background/Discussion/Analysis

Features of the Tax Abatement Agreement with the City and SAA

- A “Tax Abatement Agreement” (Agreement) between the City of Saskatoon and the SAA was established in 2002. It is periodically updated or revised, typically following a property assessment revaluation year. The agreement was last updated in 2018.
- More specifically, at its November 19, 2018 meeting, City Council approved a revision to the agreement that extended the term of the agreement for 2019 to 2023. The length of the agreement is limited to five years duration due to the provisions stated in *The Cities Act*.
- As the name suggests, the agreement formally authorizes the City to abate municipal and library property taxes for eligible properties under the control of the SAA. Abating the education property taxes is subject to approval from the provincial government.
- The agreement enables the SAA to pay taxes based on a per-passenger rate rather than ad valorem rate (taxes based on value). The SAA property tax abatement is the difference between ad valorem taxation and the per passenger amount determined by the formula in the agreement.
- Thus, as passenger volumes increase the tax abatement decreases, the tax payable to the City increases.
- As specified in the Agreement, the \$0.73 per passenger rate was determined by the SAA and the Administration. The SAA based its calculation on a five-year average of actual passengers and the annual taxes levied in 1999 (this is when the SAA assumed responsibility for the airport from the Federal Government). The Administration used the 2004 ad valorem taxes and the capacity of the existing terminal building.
- The term of the current agreement requires that taxes payable by the SAA are the greater of:
 - a) the previous year’s passenger count X \$0.73 (capped at a maximum change of 5% per year);
 - b) the 1999 taxes increased annually by the percentage change in the uniform mill rate (with automatic adjustments to recognize the restatement of the mill rate as the result of periodic reassessments); or
 - c) \$1,040,644 (actual taxes paid in 2018).

Nature of the SAA Request

- The SAA is a community-based not for profit organization which operates under a “user-pay” model. Any surplus of revenue over expenses generated by SAA is re-invested in the airport.
- SAA requests that taxes payable by SAA for 2020 be calculated based on actual passenger traffic at the rate specified in the Agreement and payable after year end upon submission of final passenger traffic numbers for the preceding year but with no minimum.
- According to the SAA, this revised request allows it to maintain a financially viable organization through a period of uncertain passenger traffic resulting from COVID-19.
- The SAA is forecasting that passenger traffic will fall to 700,000 passengers in 2020, from 1.49 million in 2019. Thus, absent relief from the City, SAA will be responsible for paying property taxes based on 1.49 million passengers (2019 actual traffic).
- The SAA has also made a similar request to the provincial government for relief on education property taxes but the province has made no decision, as they are awaiting a formal request from the City.
- The Government of Canada has offered relief to airports, including Saskatoon’s, by waiving ground lease rents from March 2020 through to December 2020. According to the SAA’s 2019 Annual Financial Report, it paid almost \$1.4 million to the federal government for rent in 2019.
- If the request were to be approved, it should also be noted that the City intends to use the actual passenger count from 2019 to determine the abatement amount in 2021.
- Another option, which would require SAA and Council approval, would be to use a three-year rolling average (2018-2020) for the passenger count in 2020 and 2021. The benefit of this approach is to smooth out passenger fluctuations over a longer period, instead of using volatile annual counts. In this case, the tax abatement for 2020 would be based on estimated passenger counts of 1.23 million in 2020 and 1.12 million in 2021.
- To implement either of these approaches, City Council would need to approve an amendment to the Agreement.