

May 14, 2020

The City of Saskatoon  
Corporate Revenue Division  
222 — 3rd Avenue North  
Saskatoon SK S7K OJ5

ATTENTION: Kerry Tarasoff, Chief Financial Officer & Mike Voth, Director of Corporate Revenue

**VIA Email**

Dear Messrs. Tarasoff & Voth,

**Re: Saskatoon Airport Authority (SAA) – 2019 Tax Abatement Agreement**

Further to my letter dated April 3, 2020 and our virtual meeting held on May 1, 2020, I am writing to you to:

1. Provide additional information on the impact of COVID-19 on SAA;
2. Outline the internal measures taken by SAA to offset the impacts of COVID-19;
3. Summarize the support requested and received from other levels of government;
4. Provide SAA's comments on how the City of Saskatoon's (the City) support of SAA will enhance the economic recovery of Saskatoon and surrounding area; and
5. Revise SAA's formal request for relief from the taxes payable under the Tax Abatement Agreement between the City and the SAA (the Agreement) having given consideration to the impact of COVID-19 on the City detailed in its report published subsequent to the SAA's initial request.

**Background**

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 for the good of its users and stakeholders. The SAA enables trade and economic growth in the City of Saskatoon through facilitating the movement of people and goods.

The SAA and its request for relief differs from most other organizations in that SAA exists solely to serve the citizens of Saskatoon and surrounding catchment areas.

**Impact of COVID-19 on SAA**

Today, SAA is operating at significantly reduced levels of aviation activity as the result of COVID-19. Scheduled air service is 80% below 2019 levels and passenger volumes are 98% below 2019 levels. These are the two most important revenue drivers of the airport business model. Many airport operational costs related to safety, runway maintenance, aircraft movements and passenger services are fixed and cannot be reduced in proportion to reduced traffic volumes. Further, Skyxe has increased cleaning protocols aimed at controlling the spread of COVID-19 in its facilities which has driven cost increases.

Similar to the City, SAA prepared multiple financial scenarios to understand the financial impact of COVID-19 on SAA. In our base case scenario SAA is forecasted to generate an operating loss of \$1.8 million and in our worst-case scenario, SAA is forecasted to generate an operating loss of \$4.9 million. Both financial scenarios reflect the

internal cost-saving measures noted below. Based on the traffic levels we are seeing today, SAA is trending towards its worst cast scenario.

Under the “user-pay” model, the cost of operating the Saskatoon Airport including the Payment-in-Lieu of Taxes (PILT) it pays must ultimately be recovered from the travelling public through its rates and charges. The losses experienced as the result of COVID-19 will ultimately be born by users of the Saskatoon Airport.

### ***Internal Measures taken by SAA to Offset the Impacts of COVID-19***

SAA has responded dynamically to the financial impacts of COVID-19 while ensuring the safety, security and operational integrity of the airport is maintained. The following internal actions have been taken:

1. A hiring freeze has been implemented;
2. A voluntary retirement program was implemented with 2 employees accepting (representing 5% of SAA’s internal staff);
3. Elimination of discretionary travel, training and administrative costs for the balance of 2020;
4. Contract service reductions resulting in 24 full-time equivalent position reductions (representing approximately 76% of applicable service providers); and
5. SAA’s 2020 capital program has been reduced by 73% with the remaining capital investment being for committed projects and critical safety, security and operational infrastructure.

### ***Support Requested & Received from Other Levels of Government***

SAA on its own and through the Canadian Airports Council has been working closely with the Federal Government seeking relief for SAA and more broadly, Canadian Airports. To date, the Federal Government has provided SAA and Canadian Airports with relief from ground lease rent. While this support is appreciated, SAA notes that Federal Rent is a relatively small portion of SAA’s operating budget. Further, Federal Rent is calculated as a percentage of gross revenue so the relief provided in a period of significant revenue declines is far lower than implied by the Federal announcement.

SAA has also made application for and expects to receive support under the Canadian Emergency Wage Subsidy. Combined, these two Federal support programs represent approximately 10% of SAA’s 2020 operating budget.

The Government of Saskatchewan has committed to support air service – a key strategic priority for both SAA and the Government of Saskatchewan because of its significant economic and tourism benefit. This support is applauded; however, does not offset any of SAA’s fixed operating costs.

Further, the SAA has made a submission to the Province of Saskatchewan requesting relief from the Education Property Tax portion of its Property Taxes.

### ***SAA’s Role in Economic Recovery***

Tourism represents a \$500 million industry in Saskatoon in a normal year. The Saskatoon Airport is critical to facilitating the re-start of this important industry by bringing people into the city and supporting the recovery of Saskatoon’s hotels, restaurants, festivals, travel agencies, visitor attractions and supporting businesses.

A 2016 economic impact study demonstrated that SAA generates total economic benefit of \$1.05 billion and over 8,000 full-time jobs.

Relief provided to SAA by the City will allow SAA to maintain competitive rates and charges to facilitate a return to normal levels of air service and minimize the cost burden on the travelling public.

***Request for Relief: Tax Abatement***

In my letter dated April 3, 2020, I requested on behalf of SAA that the City provide relief in full from taxes otherwise payable by SAA for 2020 and reconsideration of the minimum thresholds for property taxes in 2021 and beyond in light of the expectation that passenger traffic will likely fall below 2018 levels in the coming years. I acknowledge that subsequent to SAA's request, the City published a report detailing the financial impacts of COVID-19 on the City and that those impacts are significant. In seeking a fair and reasonable resolve while balancing the challenges faced by the City with those faced by SAA, SAA has revised its request as follows:

SAA requests that taxes payable by SAA for 2020 be calculated based on actual passenger traffic at the rate specified in the Tax Abatement Agreement and payable after yearend upon submission of final passenger traffic numbers for the preceding year with no minimum.

This revised request allows SAA to maintain a financially viable organization through a period of uncertain passenger traffic. Further, the City's support of this revised request will assist SAA in maintaining competitive rates and charges to re-build the air service levels to which the people of Saskatoon are reliant.

Absent relief from the City, SAA will be responsible for paying PILT based on 1.49 million passengers (2019 actual traffic) when we are currently forecasting passenger traffic will be 700,000 or lower in 2020.

I am happy to provide additional information or clarification at your request to facilitate support of SAA's request. I recognize this is a significant request and appreciate your consideration. Please contact me either by telephone (306-263-3397) or email ([npurich@skyxe.ca](mailto:npurich@skyxe.ca)) to discuss the next steps in advancing this request.

Yours truly,



Nick JB Purich, CPA, CA  
Vice-President Corporate Administration & Chief Financial Officer

Copy, by email, to:  
Stephen Maybury, President & Chief Executive Officer, Saskatoon Airport Authority