
Saskatoon Airport Authority Tax Abatement Agreement

ISSUE

City Council approval is required for a continuation of the partial Tax Abatement Agreement with the Saskatoon Airport Authority (SAA) for an additional five years (2024 to 2028 inclusive).

RECOMMENDATION

That the Standing Policy Committee on Finance recommend to City Council:

1. That the Saskatoon Airport Authority be granted a continuation of the partial Tax Abatement Agreement for five years (2024 to 2028 inclusive); and
2. That the City Solicitor be instructed to prepare the appropriate agreement and that His Worship the Mayor and the City Clerk be authorized to execute the agreement on behalf of the City of Saskatoon.

BACKGROUND

A Tax Abatement Agreement (Agreement) with the SAA has been in place since 2002. The current Agreement was approved by City Council at its November 19, 2018 meeting, which expires on December 31, 2023.

DISCUSSION/ANALYSIS

Current Agreement

The current Agreement (Appendix 1) enables the SAA to pay property tax based on a per passenger rate rather than ad valorem (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.

The following table shows the actual property tax paid under the previous two agreements:

Year	Ad Valorem Tax	Tax Paid per Agreement	Total Tax Abatement
2014	\$ 1,301,388	\$ 976,183	\$ 325,205
2015	\$ 1,357,526	\$ 1,024,992	\$ 332,534
2016	\$ 1,261,931	\$ 1,026,523	\$ 235,408
2017*	\$ 1,420,743	\$ 1,028,929	\$ 391,814
2018	\$ 1,202,365	\$ 1,040,645	\$ 161,721
2019	\$ 1,283,537	\$ 1,092,676	\$ 190,861
2020	\$ 1,368,800	\$ 1,055,836	\$ 312,964
2021*	\$ 1,640,795	\$ 1,040,645	\$ 600,150
2022	\$ 1,840,285	\$ 1,040,645	\$ 799,640
2023	\$ 1,206,233	\$ 1,040,645	\$ 165,588

*denotes reassessment years.

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Given the impact of the COVID pandemic, the per passenger rate was not used in 2021, 2022 or 2023. This is expected to change as usage of the airport continues to recover.

The property tax shown above does include the City the of Saskatoon (City), Library and Education portions. The 2023 property tax distribution for commercial properties was 59% Municipal, 6% Library and 35% Education. The distribution of the \$165,588 2023 partial tax abatement from the table above was \$97,530 Municipal, \$10,215 Library and \$57,842 Education. It should be noted that the Education portion of the abatement will require approval form the Province of Saskatchewan as it is likely to be over \$25,000 per annum.

Assessing the Airport

The airport property in Saskatoon is unique, and as such, does not have an active rental or sales market in which to develop an assessment model. Because of this, the replacement cost method is used. This method involves estimating the land value of the property, as well as adding the depreciated replacement cost for any structures.

A city-wide market factor is also applied to the estimated building value. This factor accounts for any differences in the depreciated replacement cost and the local real estate market that is not captured in the estimated building value. This market factor has the potential to fluctuate on reassessment or during a reassessment cycle, which may produce a significant increase, or decrease in the property's assessed value.

A primary reason why the assessed value of the airport may fluctuate significantly is due to expansion. Given the nature and role of an airport, a result of expansion typically results in a sizeable overcapacity and underutilization for the property until such time as passenger volumes increase to match the design capacity. This ensures that as Saskatoon grows, passenger volume is able to follow suit.

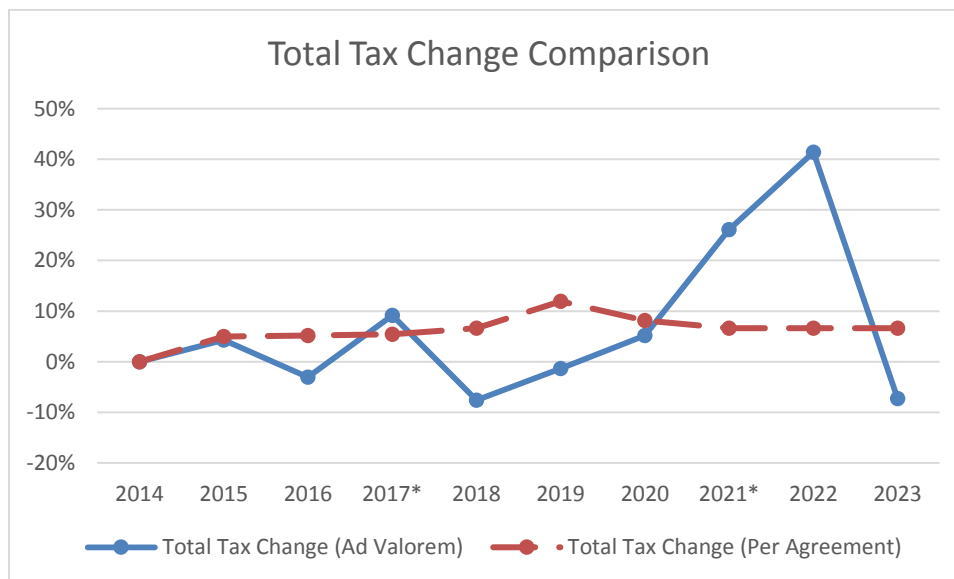
Other reasons why the assessed value for the airport can fluctuate include new construction and/or demolition of structures as well as changes in the number of tenants leasing property from the SAA.

Benefits of Using a Per Passenger Rate

The Administration recommends that the City continue with an Agreement with the SAA for the following two primary reasons:

It allows for a more predictable and transparent amount of property tax to be paid; and The per passenger taxation method is designed to address the expansion of the Airport terminal and to remove the unpredictable fluctuations in property tax when using the ad valorem method.

Please see the following graph for a visual representation of the differences in tax changes between the ad valorem and per passenger Agreement. The graph demonstrates how the per passenger Agreement has resulted in a consistent property tax amount.



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 property tax levied in 1999 (this is the year 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. While both parties used independent methods, the results were the same, which made the rate easily agreed upon. During the term of the current Agreement, property tax payable by the SAA were the greater of:

- a) The previous year's passenger count \$0.73 (capped at a maximum of 5% per year);
- b) The 1999 property tax amount 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 assessments); or
- c) \$ 1,040,645 (actual property tax paid in 2018).

As agreed upon with the SAA, provisions a) and b) would remain the same, and provisions c) would be amended to \$1,040,645 (actual property tax paid in 2023).

In accordance with the limits imposed in *The Cities Act*, the length of any such agreement is limited to five years duration.

Airport Taxation in Other Municipalities

Provincial statutes and/or legislation for airport assessment and taxation differ across jurisdiction as follows:

- Regina recently amended their tax exemption agreement to include a partial exemption of \$338,869, with \$311,400 being Municipal and \$27,469 being Library. Like Saskatoon, the runways, aprons, etc. are also fully exempt from property tax.

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- Leduc County (Edmonton International Airport) uses the Ad Valorem method but does incorporate ridership stats as a market adjustment factor in developing the assessment.
- The City of Calgary uses the Ad Valorem method but does exempt the runways, aprons, etc.
- Other airports in cities such as Vancouver and Montreal are exempt from taxation; however, they do provide a payment-in-lieu-of-tax.

FINANCIAL IMPLICATIONS

The abated amounts impact the annual mill rate, with the 2023 amount being \$165,588. Any future impacts are difficult to estimate as the number of passengers, assessed value of the property and future mill rates are not known at this time.

NEXT STEPS

If City Council approval is granted, Administration will provide the SAA with an Agreement in Principle letter.

APPENDICES

1. SAA Tax Abatement Agreement 2019 - 2023

REPORT APPROVAL

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Approved by: Clae Hack, Chief Financial Officer

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