
Admin Report - Airport Tax Agreement.docx

Recommendation

That the report of the CFO/General Manager, dated November 14, 2017, be forwarded to City Council for information.

Topic and Purpose

The purpose of this report is to provide information based on the City of Saskatoon's (City) current tax agreements with the Saskatoon Airport Authority (SAA) and other potential future options, as well as other municipalities' airport tax information.

Report Highlights

1. The current partial Tax Abatement Agreement formula results in taxes being paid by the SAA on per passenger volumes.
2. Airports in other municipalities have passenger based taxed calculations to create predictable property taxes for both the airport and the taxing authorities.

Strategic Goals

This report supports the Strategic Goal of Asset and Financial Sustainability by ensuring that the City is open, accountable and transparent regarding the decisions it makes relating to taxation.

Background

At its meeting of October 23, 2017 when considering the 2018 Preliminary Business Plan and Budget, City Council resolved, in part:

- “2. That the Administration report back on the current tax agreement with the Saskatoon Airport Authority and other potential options, including information on other municipalities.”

Report

Tax Exemption and Abatement Agreements

The City has two agreements with the SAA with regard to how the airport is taxed. The Tax Exemption Agreement (Attachment 1) exempts the runways, taxiways, and aprons in the calculation of property taxes. The Tax Abatement Agreement (Attachment 2) enables the airport to pay taxes based on a per-passenger rate rather than ad valorem (taxes based on value).

The SAA is responsible for payment of municipal property taxes for which the City, prior to 1999, would have received a grant in lieu of real property tax from Her Majesty the Queen. When the airport was operated by Her Majesty the Queen, the Minister of Public Works paid the City a grant-in-lieu of property tax in respect to the airport. However, aircraft runways were not included as federal property for which grants were paid.

Saskatoon Airport Authority Agreement

City Council has granted the SAA an exemption from paying property taxes on runways, taxiways, and aprons as long as the SAA has been the assessable owner of the local airport and the runways have been assessed. The current five-year Tax Exemption Agreement will be expiring on December 31, 2018.

At its meeting on December 16, 2002, City Council first approved a property tax abatement to address the expansion of the airport terminal for the years of 2002-2004. The partial Abatement Agreement with the SAA has been in place since 2004 and has been renewed in five-year terms. The current Abatement Agreement was signed on November 20, 2014 for a five-year term, ending on December 31, 2018.

During the term of the Abatement Agreement, taxes payable by the SAA are the greater of:

- a) the previous year passenger count X \$0.73 (capped at a maximum change of 5% per year); or
- b) the 1999 taxes incremented annually by the percentage change in the uniform mill rate (and automatically adjusted to recognize the restatement of the mill rate as the result of periodic reassessments); or
- c) \$929,698 (actual taxes levied in 2013).

The current Abatement Agreement is meant to remove the fluctuations in property tax inherent in an ad valorem system.

Airports are unique in their design and rarely, if ever, sell. When market data is not available, it is standard to use the cost approach to develop the assessment. A replacement cost is used to value the improvements and the land is valued separately.

Airports are designed to meet a certain yearly passenger capacity. As passenger volumes increase and approach capacity, the airport must undertake extensive alterations to meet the increasing passenger volume. The agreement to use yearly passenger counts to determine taxes to be paid creates predictable property taxes for both the airport and the taxing authorities.

The SSA property tax abatement is the difference between ad valorem taxation and the amount determined by the formula in the Abatement Agreement. As shown in the following table, taxes paid are trending upwards and are more predictable than the ad valorem tax which fluctuates with phase-in and changes in assessment (i.e new airport expansion).

Year	Ad Valorem Tax	Taxes Paid Per Agreement	Total Tax Abatement
2010	\$ 1,218,038	\$ 803,108	\$ 414,930
2011	\$ 1,229,822	\$ 843,264	\$ 386,558
2012	\$ 1,257,340	\$ 885,427	\$ 371,913
*2013	\$ 1,148,381	\$ 929,698	\$ 218,682
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

*Reassessment year

Taxes shown above are total taxes, including City, Library and Education. The distribution of taxes for 2017 is 52% City, 5% Library, and 43% Education.

Potential options for City Council consideration upon the expiration of the both agreements with the SAA include:

- re-initiate ad valorem property taxation;
- determine a different 'per passenger' amount in agreement with the SAA;
- determine a new and different agreement with the SAA;
- determine a different length of term; and
- not to exempt the runways, taxiways, and aprons from property taxation.

Other Municipalities

The Administration has held discussions with the Cities of Regina and Winnipeg. The City of Regina applied a partial airport tax exemption similar to Saskatoon's abatement until 2017. Taxes paid were calculated using a formula of \$0.65 per passenger. In 2017, Regina City Council removed the municipal portion of the exemption, however, the library and education portions were still exempt. The 2018 assessment for the Regina Airport is taxable, and its City Council may or may not grant an exemption as part of the 2018 budget discussions.

The City of Winnipeg does not have abatement programs, and assessments are done using the ad valorem method.

Financial Implications

The abated amounts impact the annual mill rate.

Due Date for Follow-up and/or Project Completion

There is no due date for follow-up and/or project completion.

Public Notice

Public Notice pursuant to Section 3 of Policy No. C01-021, Public Notice Policy, is not required.

Attachments

1. City of Saskatoon and SAA Tax Exemption Agreement
2. City of Saskatoon and SAA Tax Abatement Agreement

Report Approval

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Reviewed by: Shelley Sutherland, Director of Corporate Revenue
Kerry Tarasoff, CFO/General Manager, Asset & Financial
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Approved by: Jeff Jorgenson, Acting City Manager

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