Saskatoon Airport Authority Tax Abatement Agreement

Recommendation
That the Standing Policy Committee on Finance recommend to City Council:
1. That the Saskatoon Airport Authority be granted a partial Tax Abatement Agreement for five years (2019 to 2023 inclusive); and
2. That the City Solicitor be requested to prepare the appropriate agreement and that His Worship the Mayor and the City Clerk be authorized to execute the agreement under the Corporate Seal.

Topic and Purpose
The purpose of this report is to receive City Council approval for a partial Tax Abatement Agreement with the Saskatoon Airport Authority (SAA) for an additional five years (2019 to 2023 inclusive).

Report Highlights
1. The current partial Tax Abatement Agreement formula results in taxes being paid by the SAA on per passenger volumes.

2. The per passenger based tax calculations benefit the City of Saskatoon (City) and the SAA.

3. The Administration has reviewed the assessment and taxation of airports in other comparable municipalities.

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

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 March 12, 2014 meeting, which expires on December 31, 2018.

Report
<u>Tax Abatement Agreement</u>
The current Agreement (Attachment 1) enables the SAA to pay taxes 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 taxes paid under the previous agreements:

Year	Ad Valorem Tax	Tax 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
2018	$ 1,202,365	$1,040,644	$ 161,721

*Reassessment year

The tax paid per the Agreement is trending upwards as per passenger volumes increase, while the ad valorem tax fluctuates with changes in assessment values and reassessment.

The property taxes shown above are total taxes, including City, Library and Education. The 2018 property tax distribution for commercial properties is 53% Municipal, 5% Library, and 42% Education. The distribution of the 2018 partial tax abatement is $85,668 Municipal, $8,546 Library, and $67,507 Education. Given recent changes in provincial legislation, the Education portion of the abatement requires approval from the Province of Saskatchewan as the abatement amount is over $25,000.

Being that the airport property is the only one in the city, it is unique. Airports do not have an active rental or sales market, and for this reason, the replacement cost method is typically used. This method involves estimating the land value of the property, as well as adding the depreciated replacement cost for any structures on the property.

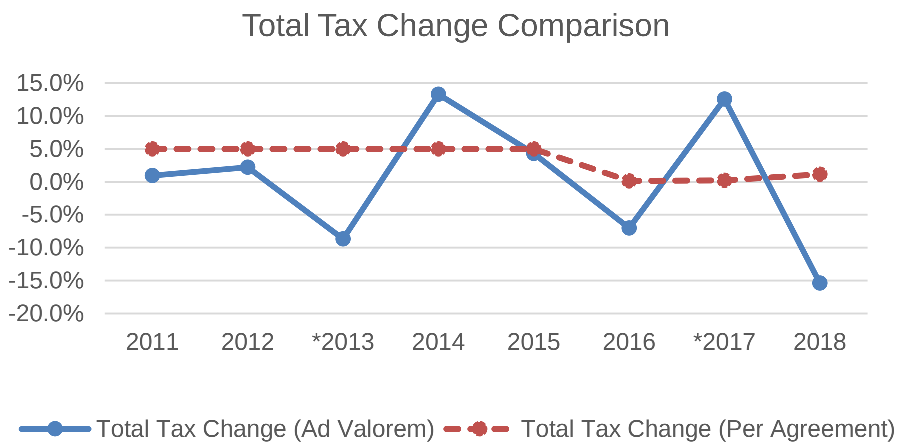
A city-wide market factor is also applied to the estimated building value. This factor accounts for any differences in the depreciated replacement cost and the local real estate market that is not captured in the estimated building value. This market factor has the potential to fluctuate on reassessment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

<u>Benefits of Using a Per Passenger Rate</u>
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 taxes to be paid; and

- The per passenger taxation scheme 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.

The following graph provides a visual representation of the differences in tax changes between the ad valorem and per Agreement tax method. The graph also demonstrates that the per Agreement tax method has consistently resulted in a tax increase whereas the ad valorem method has not.



When an airport expansion is first implemented, the result is 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 volumes can grow with it.

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. 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 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) $929,698 (actual taxes paid in 2013).

As agreed upon with the SAA, provisions a) and b) would remain the same, and provision c) would be amended to $1,040,644 (actual taxes paid in 2018).

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 jurisdictions as follows:

- In Regina prior to 2017, a partial airport tax exemption was applied similar to the SAA's abatement. Taxes paid were calculated using a formula of $0.65 per passenger, and the remaining taxes were exempt. In 2017, Regina City Council removed the exemption for the municipal portion, however, the library and education portions were still exempt. In 2018, all exemptions were removed and the assessment for the Regina Airport Authority is taxable.

- Assessment values are used to calculate taxes for the Alberta Regional Airport Authorities of Fort McMurray, Red Deer, Edmonton, and Calgary, as well as for the Winnipeg Airports Authority Inc. It should be noted that the airport authorities in Alberta previously requested that a per passenger rate be applied, as their assessment process, which uses the ad valorem model, does not accurately account for the use of the airports.

- Per passenger rates are used to calculate taxes for the Toronto, Ottawa, London, Thunder Bay and Halifax airports. Typically, these per passenger rates are indexed to an inflation indicator (i.e. Consumer Price Index).

- Other airports in cities such as Vancouver and Montreal are exempt from taxation, however, the governments provide a payment-in-lieu-of-tax.

Options to the Recommendation
City Council can choose not to approve a partial Agreement with the SAA. However, the Administration does not recommend this option as the long-standing Agreement is meant to remove unpredictable fluctuations in property tax revenue for a unique property. If City Council chooses not to approve the abatement, the Administration recommends that the abatement be approved for a final term, which will allow the SAA to plan and prepare for the change in property taxation.

City Council can also choose to propose a different rate per passenger and/or having a different length. The Administration does not recommend this option as the terms of the Agreement have achieved the desired results of predictable, stable taxation amounts for the SAA and the City.

Public and/or Stakeholder Involvement
Stakeholder involvement is limited to the SAA which is in agreement with the recommendation (Attachment 2).

Communication Plan

Upon City Council's decision regarding the new or ongoing status of the current abatement and taxation scheme, the SAA will receive an Agreement in Principle letter from the City.

Financial Implications

The abated amounts impact the annual mill rate, which is $161,721 for 2018. The impact for future years is difficult to estimate as the number of passengers and future mill rates are not known at this time.

Other Considerations/Implications

There are no policy, environmental, privacy, or CPTED implications or considerations.

Due Date for Follow-up and/or Project Completion

If the recommendation is approved and implemented for a five-year period, follow-up will be required at the end of the abatement period. At that time, all taxation options can again be considered and/or revisions and updates to the abatement formula.

Public Notice

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

Attachments

1. Tax Abatement Agreement 2014 - 2018
2. Letter from SAA dated April 20, 2018

Report Approval

Written by:	Pamela Kilgour, Manager, Property Taxation and Support
Reviewed by:	Mike Voth, Acting General Manager, Asset and Financial Management Department
Approved by:	Jeff Jorgenson, City Manager

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