



April 20, 2018

Our File: 5168-4

Mr. Kerry Tarasoff
General Manager, Asset & Financial Management
City of Saskatoon
325 – 3rd Avenue North
Saskatoon, SK S7K 0J5

Dear Mr. Tarasoff:

Re: Saskatoon Airport Authority – Property Taxation

I am following up on the discussion that you had with Drew Britz last fall and the opportunity that Drew and I were given to express our appreciation and demonstrate the importance of our property tax agreements with both you and His Worship. As anticipated at that time, we would like to discuss with the City our preference to continue an alternative to full ad-valorem property taxation.

As we have done in the past, Drew recently provided our audited passenger numbers to Darcy Huisman and Pamela Kilgour along with our analysis of the formula for the calculation of the tax in accordance with the current abatement agreement. As you are aware, the annual number of passengers is a critical component of the existing agreement. I understand that Pamela and Drew discussed the pending end of the current agreements and they believed that a letter addressed to you was the most appropriate first step toward addressing the expiration of the agreements.

As you are aware, the City of Saskatoon and the Saskatoon Airport Authority (SAA) have developed and agreed to a property taxation methodology that is stable, non-controversial and reflective of the economic realities of both entities. It is recognized that airports have unique design characteristics and they don't sell; therefore attempts to establish evidence of local market value is extremely difficult. The nature of the lease obligations governing airport lands restrict the use and have onerous end of lease obligations. In 2004, based upon the methodology, the City of Saskatoon and the Saskatoon Airport Authority (SAA) entered into a tax agreement that addressed a number of issues related to the taxation of property and improvements located on Saskatoon airport lands.

While the cities of both Saskatoon and Regina and the Airport Authorities located in the respective Cities requested that the Province incorporate this tax formula into the relevant section of the Cities Act, the Province was reluctant to do so. After considerable time and effort, both airports have come to the conclusion that the Province prefers to leave this matter in the hands of the respective airports and their municipality.

In Saskatoon the current agreements are due to expire after the 2018 tax year. The SAA wishes to ask the City of Saskatoon to consider extending the partial property tax abatement agreement and the exemption of airfield maneuvering improvement agreement for a further 5 years. We understand that the City has included such an extension as one option for consideration and we acknowledge that if such extension was

to be considered there is a desire by the City to review some of the terms and conditions contained in the agreements.

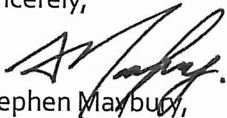
As you are aware, the agreed upon formula for the determination of the payment of taxes is largely based upon passenger volumes. Using that formula the annual increase in SAA tax payments have averaged slightly greater than 4% over the past 10 years. While this exceeds the annual property tax mill rate increases, the SAA is pleased to make that payment as it reflects the strong passenger volumes at our Community airport. We would also suggest that significant airport tenant improvements, which have occurred as a result of infrastructure investments made by the SAA, have also expanded the property tax base for the City without any corresponding decrease in taxes paid by the Airport Authority and without any infrastructure or financial burden of any kind on the City.

It is noteworthy that the concepts, provisions and formula agreed to in 2004 continues to achieve all of the desired results that had been sought by City Administration and the SAA when the agreement was originally developed. It has resulted in a fair and non-controversial level of taxation that has guaranteed the City a minimum payment which grows with the volume of passenger air traffic at the airport while adding the stability necessary for the SAA to continue to make significant investment in the airport infrastructure which is essential for continued economic growth in our community. The Community has benefited from a world class award winning airport with capacity for growth, the SAA has benefited by receiving a tax abatement on the excess capacity that has been built into the infrastructure to meet future demand and the City has benefited from a growing tax base and the SAA tax payments that have exceeded general mill rate increases.

Airport infrastructure cannot grow incrementally to simply meet the annual increase in passenger demand, and unlike many other businesses, we cannot jeopardize the critical reliance that our Community places on the airport by failing to have adequate / excess capacity available at all times. The basic premise of the tax agreement lies in the fact that a tax abatement relative to the excess airport capacity encourages the Airport Authority to continue to invest in a critical community infrastructure. There are a number of economic opinions suggesting that the taxation of airports using traditional valuation models are at best flawed and potential harmful to a Community.

We appreciate the City's recognition that an efficient, expanded, more modern airport will assist both our Community's airport and the City achieve our economic goals. We ask for your consideration in extending the property tax abatement which is about to expire. Your support has been instrumental in the past success of our community's airport and we look forward to continuing to work with the City on this matter.

Sincerely,



Stephen Maybury,
President and CEO

Saskatoon Airport Authority

cc: Drew Britz, Saskatoon Airport Authority