

Rates and Charges Methodology Canadian Airports Perspective



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Introduction

- Brief overview of the Canadian airport model
- Methods used by Canadian Airports
- Airlines' reaction
- Future developments



Canadian Airport Model

- Early 1990s : Canadian Government commenced transfer of airports to local airport administrations
- 26 most important airports operating under long-term leases from Transport Canada or sold to local governments as part of the National Airports System
- Private, not-for-profit, legally incorporated entities
- Non-share capital structures – no dividend obligations



Canadian Airport Model – cont'd

- Community based Boards to foster accountability
- Not-for-profit organizations obliged to reinvest net cash flow generated into the airport's development
- Transfers obligations for investment and municipal taxes to airport authorities
- Relieves government of all financial obligations



Canadian Airport Model – cont'd

- Main sources of funds: aeronautical activities, airport improvement fees and commercial operations
- Issue debt and arranges credit facilities to finance modernization and expansion
- No government grants or subsidies



Canadian Airport Model – cont'd

- Canadian Airports are increasingly “common use” facilities.
- Commoditization of facilities accelerated since 2001
- VIP lounges and office space only remaining exclusive space with counters, gates, baggage rooms and check-in systems all common use



Canadian Methodologies

- Among major Canadian airports only Toronto uses a *Residual* methodology
- The Residual system simply accumulates the costs, subtracts all the revenues and uses some rational method to allocate the balance to the airlines – for example, lumped into a landing fee
- Has been criticized for not providing the incentive for the airport to drive non-aeronautical revenues and for transferring all financial risks to the airlines



Canadian Methodologies – Cont'd

- Under a compensatory scheme:
 - Landing Fees and Terminal Fees are structured to (eventually) recover 100% of airside and airline related terminal charges respectively
 - Most Canadian airports are currently under-recovering from airlines
 - Airports finance capital improvements and debt service out of other revenue and debt



Canadian Methodologies – Cont'd

- Under a compensatory scheme (cont'd):
 - Airlines do not subsidize deficits or benefit from any surpluses generated by non-aviation activities
 - Any net surpluses generated from non-aviation activities are invested in airport capital programs
 - Airport Improvement Fees (AIF) paid must be invested in airport capital programs and never serve to compensate operational deficits



Canadian Methodologies – Cont'd

- Under a compensatory scheme (cont'd):
 - Costs are categorized as Airside, Terminal or Ground
 - Terminal costs are Airline, Other (non airline commercial) or Common
 - Common Costs are allocated according to an agreed scheme similar to the practice in commercial real estate projects



Canadian Methodologies – Cont'd

Airside		Terminal		Ground
Airlines	Airlines	Common	Other	Other
Landing	Passenger processing	Security & Fire	Concessions	Parking
De-icing	Bridges	ADM offices	Office Space	Real Estate
Security & Fire	Exclusive space	Circulation areas		Roads
		Restrooms		Ground Transport
		Mechanical		
		HVAC		



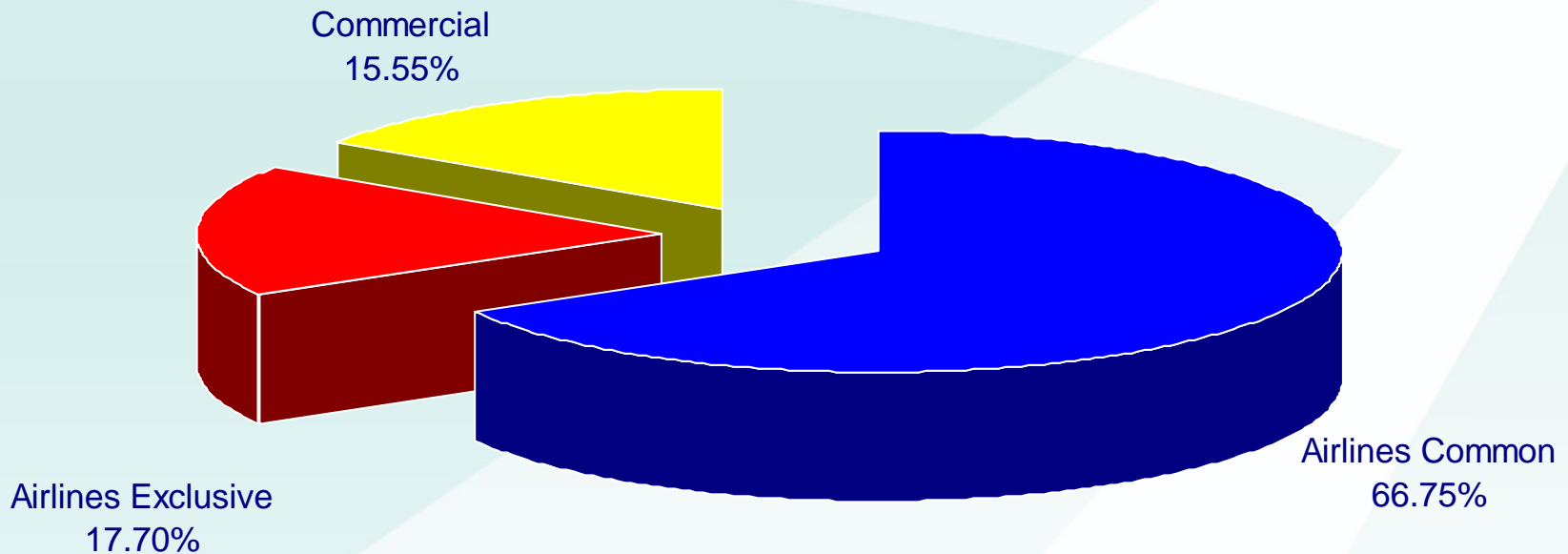
Canadian Methodologies – Cont'd

<u>Allowable Cost Category</u>	<u>Allocation Key</u>
Operating Costs	Square meters occupied
Administration Costs	Square meters occupied
Property Taxes	Square meters occupied
Rent to Canadian Government	Gross revenue generated
Financing Costs	Value of assets utilized
Debt Reserve	Value of assets utilized



Canadian Methodologies – Cont'd

Current Montreal Space Allocation





Airlines Reaction

- In Canada, airlines are satisfied with the application of compensatory methodology
 - A fair charge for capital and financing costs
 - They have been consulted in the methodology selected and agree it is non discriminatory
 - Calculations are fully transparent



Future Developments

- Further commoditization
- Issues surrounding environmental impacts
- Driving efficiencies with methodologies:
 - Peak and Off-peak landing rates
 - Time on bridge