



May 3, 2019

Chris Holden
 City Manager and Chief Administrative Officer
 City of Regina
 2476 Victoria Avenue
 Regina, SK, S4P 3C8

Dear Mr. Holden,

Re: Investment request to support air service development and retention

As a self-funded not-for-profit organization, the Regina Airport Authority (RAA) depends on generating revenue from a variety of sources. Generating non-aviation revenue and controlling expenses is critical for RAA as it allows fees and charges to be kept as low as possible for the airlines and travelling public. This lower cost strategy encourages airlines to consider maintaining and/or enhancing air service for Regina and provides funds for marketing to airlines and incentives for new routes.

The Regina Airport is a massive economic engine that contributes over \$800 million per year of GDP into the economy. Air service makes up a large component of the GDP activity and supporting air service is critical for a thriving economy and promoting economic growth. Air service also has a positive social impact by providing a choice for residents in various travel options, connecting with family and welcoming visitors to our region.

With the loss of year round trans-border service to Chicago, Denver and Minneapolis in 2015/16, the airport is currently without a direct flight to a US hub. Although there is excellent service to major Canadian hubs such as Toronto, Calgary and Vancouver, the lack of US service has been felt throughout the community. To help quantify the value of US air service to Regina, in 2018 RAA undertook a financial impact assessment of daily regional jet service to a US hub such as Denver or Chicago.

The summary of the economic impact is:

- Service twice a day to a city like Denver or Chicago on a **50 seat regional jet**, similar to what operated in 2015, is worth over \$12 million per year to the local economy.
- Service twice a day to a city like Denver or Chicago on a **70 seat regional jet**, is worth over \$16 million per year to the local economy.

Growing air service to Regina is a major priority for both RAA and the community as we recognize it facilitates economic growth in Regina and surrounding area. Growing air service also promotes competition by offering residents choice on how they book a flight which ultimately promotes more aggressive fares from airlines.

Marketing the City of Regina to US airlines has been a massive focus of the RAA in the past 15 months.

Working collaboratively with partners such as the Government of Saskatchewan, Economic Development Regina, Tourism Saskatchewan, Regina and District Chamber of Commerce, Regina Hotel Association and a host of local businesses who have supplied support letters, the RAA has raised Regina's profile in a concerted effort to have the Queen City reconsidered for daily service to a US hub.



Airlines are heavily sought after by any community with an airport. To encourage new routes, many communities offer significant financial incentives to gain an airline's attention and ultimately compete for their business. With the GDP rewards being in the \$12 - \$16 million range for the contemplated US air service to Regina, it's absolutely essential to roll out a financial package that will make the city competitive with other opportunities they may be considering.

Although financial incentives come in a variety of forms, the common theme is to reduce the airline's financial risk enough to incent them to consider the route while reasonably ensuring their profitability. In the case of current discussions underway with US carriers, the RAA has put forward an aggressive plan which includes:

- Revenue guarantee;
- Reduction in landing and terminal fees for 6 – 12 months;
- Cash for marketing; and
- In-kind support.

The dollar values of the above items are still in negotiation but are seven figures in nature, with the flexibility to extend the support should the airline require it. **Bringing back a US airline to Regina and losing it again 12 months later would simply be unacceptable, so sustained support would be key.** As an organization, the RAA itself has taken on considerable financial risk in attempting to attract US service back to the City, yet it is not the immediate beneficiary of that risk. This is all about building economic activity for the City as a whole and the businesses that rely on air transportation links.

Although not as glamorous as bringing in new routes, retaining existing service is an equal priority for the RAA. For an airline to succeed it needs to make profit. If it doesn't, it will move its aircraft to other cities. In 2019, the RAA did its part and gave the airlines a **zero percent increase** to fees and charges with plans to hold the line in 2020 if possible. The less fees charged to airlines, the more incentive there is for an airline to add seats into the market, which then stimulates additional GDP for the City.

The RAA has certain levers it can pull to generate revenue and control expenses to off-set the need to increase airline fees, but there are limits. It is also important to understand that the RAA is unable to use even a single penny of the \$20 Airport Improvement Fee (AIF) for any of the noted incentives or to combat airline fee increases. The AIF dollars are restricted to capital investments that are only a direct benefit to the travelling public or for key airport infrastructure related to the same purpose.

Although the airport will continue to pursue revenue generation through ground transportation, concessions, parking, land development and related commercial activity, they have sought dollars from partner organizations to support air service growth.

RAA's request to the City of Regina

The RAA has confirmed for City administration that it is doing everything in its power to encourage airline growth and retain air service and is requesting the City consider supporting this initiative by providing financial assistance that would qualify for the Province to exempt a portion of the educational component of property taxes (approximately \$199K). In order to receive the exemption for education tax, the province requires the city to provide an exemption as well. A reduction in the property tax for the airport would allow the RAA to re-invest this money into air service development and retention.

The RAA is seeking a five (5) year renewable agreement providing predictability and stability to the airport. In return, the RAA commits to utilizing the annual expense reduction exclusively for fee and charge management and airline incentives. Examples of this would include:



- Marketing funds for air service routes;
- Offsets on incentive costs (terminal and landing fee waivers);
- General expense reduction to offset the need to raise airline fees to generate operating revenue; and
- Utilize outside services to support air service development (consulting support/partnerships).

The RAA proposes the following measures to be realized to maintain the proposed agreement.

- An airline to commit to daily year-round US hub service by end of 2020; and
- Fee increases to airlines to not exceed CPI on an annualized basis for the life of the agreement.

Note, RAA intends to minimize fees and will endeavour on zero percent increases when possible but is unable to predict five (5) years out.

Should the RAA not realize the goals set above, City of Regina administration would notify Mayor and Council who would then discuss the merits of the program at that time and determine if the program should be renewed or cancelled. It would be understood by both parties that the terms of the agreement would be revisited every five (5) years.

Economic development and growth are essential for a vibrant community. The support requested here allows for a relatively small investment to be amplified by helping to preserve and grow air service for the City and the many businesses that depend on it. The long-term availability of expense reduction in the form of tax reduction or qualifying grant that allows for the removal of the education component of RAA's taxes will go a long way in promoting and retaining air service to Regina.

As the President and CEO of the Regina Airport Authority, you have my personal assurance that the proposed investment would be spent wisely and the collaborative approach we have demonstrated this past 15 months will continue to be built upon.

Sincerely,

A handwritten signature in black ink, appearing to read 'James Bogusz', with a long horizontal flourish extending to the right.

James Bogusz
President and CEO
Regina Airport Authority