



# Partners for Regional Aviation Infrastructure

## Airport Capital Assistance Program Improvements







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## EXECUTIVE SUMMARY

After 20 years the Airports Capital Assistance Program (ACAP) program has proven to be a valuable program for providing essential funding to improve the safety of small airports across Canada. However, the program is in need of a major programmatic and financial overhaul to ensure that it continues to meet the needs of small airports across the country.

Through the evolution of safety regulations, technological advances, and inflation the amount of money provided through ACAP is no longer sufficient to meet the needs of airports if the program is applied in a manner consistent with its original intent. Furthermore, inequities built into the eligibility criteria have excluded some airports from accessing ACAP funding.

Airports associations (Canadian Airports Council, Regional Community Airports of Canada, Atlantic Canada Airports Association, Conseil Des Aéroport du Québec, Airport Management Council of Ontario) across the country have joined together to advocate for changes to the ACAP program so the program may remain a vital source of capital assistance for the next 20 years.

## BACKGROUND

Canada has chosen a model of airport administration designed around a system of national, regional/local, small and remote airports. Transport Canada developed the National Airports Policy (NAP) to support the transfer of government owned and operated airports to independent and local airport authorities.

The NAP framework defines the federal government's role with airports in Canada and its varying involvement from lessor, to funding assistance, to full owner/operator at the following categories of airports:

1. Nationally significant airports with regularly scheduled traffic that form the National Airport System (NAS); NAS airports include those that are located in a national, provincial and territorial capital as well as those that handled at least 200,000 passengers per year (at the time of the NAP);
2. Regional/local airports that have scheduled traffic and are of regional and local significance, but are outside of the NAS criteria;
3. Small airports—a group of small, federally-supported airports that serve local interests, such as general aviation and recreational flying. In many instances, these airports are operated on behalf of the federal government by municipalities or other local entities. Some receive funding for annual operations from local sources while others receive an annual federal subsidy;
4. Remote airports—the federal government is responsible for the operation or funding of remote airports across the country. Airports are considered to be remote if air transportation is the only reliable year-round mode of transportation available to the community it serves.

Regional/local airports are defined within a more regional and local context rather than a national one. The criteria for these airports have been defined by Transport Canada as those sites:

- Where scheduled passenger traffic is less than 200,000 a year for three consecutive years;
- Which are not a national capital or a provincial or territorial capital;
- Which are not classified as Arctic or remote airports;
- Where there is currently some form of ongoing federal financial involvement relating to the ownership or operation of the airport;
- Which have scheduled passenger traffic.

Among other things, the enactment of the National Airports Policy resulted in the transfer of the financial responsibility for airports from the Government of Canada to local airports and their air travellers. This financial model also resulted in a net transfer of funds from aviation to the federal government in the amount of approximately \$291 million in airport rent in 2013. In fact, airports have paid more than \$4 billion in rent to the federal government since it transferred ownership of Canada's airports to non-share capital airport authorities in 1992.

Aviation is a significant contributor to government, but only a fraction of the funds contributed to government are going back into the aviation system.

## **THE AVAILABILITY OF CAPITAL FOR SMALLER AIRPORTS**

Generally the transfer of airports in Canada to local airport authorities and communities has been a good story. Since transfer Canada's airports are fulfilling their mandate of building and maintaining their airports in a manner that is financially self-sustaining overall. However, while larger airports have been able to fund capital projects with their own Airport Improvement Fees, smaller airports with particularly low traffic volumes have challenges in doing so.

Airports generally have high fixed costs and revenue that is directly related to the nature and volume of air traffic. Smaller airports do not enjoy the economies of scale as do their larger counterparts. In fact, airport expenditures can be viewed as occurring in four sets:

1. The cost of operating and mobile equipment;
2. The cost of restoration projects to maintain buildings and airside surfaces;
3. The cost of large capital expansion projects to meet growing demand; and
4. The cost of large capital expansion projects to facilitate growth in air services.

Only airports with sufficient traffic levels are able to cover all four of these categories with their own revenue streams. Some smaller and remote airports cannot cover even the first set of expenditures. It is clear that the small and mid-sized airports require some level of capital assistance and that level of capital assistance is primarily dependent on the scale or the traffic handled at that facility.

The options for increasing the availability of capital are through grants such as Transport Canada's ACAP, the federal "Building Canada" funding initiatives in partnership with federal and provincial governments, or through raising airport fees and charges.

To remain viable, small airports require adequate and predictable funding for essential, safety-related airside capital projects. Since these smaller airports have less stable traffic and aging assets, they also have greater difficulty in obtaining capital through commercial markets for infrastructure maintenance and upgrades.

## **ACAP AND THE CHALLENGE FOR SMALL REGIONAL/LOCAL AIRPORTS**

ACAP was created in 1994 as part of NAP, which called for the commercialization of airports through divestiture to local authorities. According to the policy, the program was created to assist airports with financial projects related to safety, asset protection and operating cost reduction. Government recognized that airports with less than 525,000 passengers would require access to some varying levels of financial assistance in order to maintain safe and secure airport infrastructure for the travelling public.

Overall, there are approximately 200 regional/local airports in the country that are eligible for ACAP funding today.

ACAP itself is a continuing program administered by Transport Canada and projects are funded in three priority categories as noted below:

- **1st Priority:** Safety-related airside projects such as rehabilitation of runways, taxiways, aprons, associated lighting, visual aids, sand storage sheds, utilities to service eligible items and related site preparation costs, including directly associated environmental costs, aircraft firefighting equipment and equipment shelters necessary to maintain the airport's level of protection as required by regulation.
- **2nd Priority:** Heavy airside mobile equipment and safety-related items such as runway snowblowers, runway snowplows, runway sweepers, spreaders, winter friction testing devices, and heavy airside mobile equipment shelters.
- **3rd Priority:** Air terminal building/groundside safety-related considerations such as sprinkler systems, asbestos removal, and barrier-free access.

Currently, airports eligible to receive ACAP funding as outlined in program guidelines:

- Are not owned or operated by the federal government;
- Meet certification requirements; and
- Offer year-round regularly scheduled commercial passenger service, meaning in each of the three most recent calendar years the airport handled at least 1,000 year-round regularly scheduled commercial passengers as reflected in Statistics Canada's "official" passenger statistics. If an airport is not captured in these statistics, it must complete a statutory declaration.

ACAP is pivotal in providing small airports with access to funding to complete essential safety projects. The last five-year version of the program (2005-2010) allocated \$190 million toward airport projects across Canada, or approximately \$38 million annually. Following a one year gap, a new continuing program was announced in 2011, which is expected to continue to be funded at approximately \$38 million annually. But while funding levels for ACAP have not increased in 15 years, the cost of doing business has risen considerably during this time period.

ACAP funding is expected to remain steady at \$38 million per year. When the program was renewed in 2010 it was renewed in perpetuity. Funding levels are of course subject to parliamentary appropriations each year but for the foreseeable it is anticipated to remain stable. Since its inception in 1995, ACAP has invested just over \$662 million into 791 projects at 174 airports across the country.

The following table below summarizes funding by priority level over the last few years:

<b>Total Projects Funded under ACAP from FY 2009-10 to 2013-14 by ACAP Priority</b>		
<b>Priority*</b>	<b>Total # of projects</b>	<b>Total Estimated Cost (TEC)</b>
1	83	\$118,008,263
2	115	\$214,240,003
3	1	\$329,448
<b>GRAND TOTAL</b>	<b>199</b>	<b>\$139,761,714</b>

*Date compiled: January 6, 2015*

Much has changed since 1995. The cost of doing business has increased and flying is less a luxury mode of transport. It has increasingly become a necessity to conduct business across the country and connect people and goods to global markets. As well, a new market of fly in/fly out workers has contributed to the growth of aircraft movements at small airports in many regions.

## **CHALLENGES WITH AIRPORTS CAPITAL ASSISTANCE PROGRAM**

### ***1. ACAP is Underfunded***

For 15 years, ACAP funding has not increased. A total of \$38 million annually to ensure the support for safety and security of 200 airports in Canada is no longer sufficient. Airport infrastructure and equipment is a specialty industry leaving airports and aviation with limited opportunities for access and choice, which understandably leads to higher costs compared to many other industries.

For example, the cost to replace a plow truck for runway winter maintenance in 2005 was \$152,000. Replacing the same truck utilizing the same tender specifications in 2011 was \$245,500, a 61% increase in just six years. In comparison, the replacement of a runway sweeper in 2009 was \$237,500 while replacing a sweeper using the same tender specifications in 2010 was \$318,000 (33% in one year). The cost to resurface or rehabilitate an average-sized 7,000 foot runway is now \$7-10 million, a cost increase of nearly 100% since 2000.

It is apparent that the increasing cost of maintaining and replacing airport infrastructure, in the absence of increased funding levels in ACAP is leaving airports in a drastic struggle to maintain capital infrastructure in a safe and efficient manner. In many cases, ACAP is an airport's only source of capital.

While there are now three levels of priority for funding projects in the ACAP program, (priority level 4 was taken out of the program in 2011), the majority of projects being funded are Priority Level 1 and 2 projects.

Airports contend that the program is insufficiently funded to be consistent in meeting its original intent. While it is understood the ACAP funding may not have been completely exhausted in some years. It is also understood that the years the program were "under subscribed" was not a function of lack of viable projects or applications but rather governmental resource and procedural challenges.

It is our understanding that the program currently commits to approximately \$50 million in projects annually in attempt to expend the full allotment of \$38 million annually. Program administration and outdated approaches in areas such as the advancement of design practices, construction options, purchasing methods, etc. are believed to be contributing factors to the need for this method. This practice potentially leaves at least \$12 million worth of approved projects unfunded in a given year. Continued utilization of this approach to support the safety needs at small airports means that there will forever be a backlog of eligible and approved projects that will not get timely and appropriate funding to maintain essential needs.

Opinions differ on the appropriate amount of ACAP funding. There are also numerous ways of identifying or defending a position in this regard. For example, simple application of the nationally recognized annual CPI rate, as published by Statistics Canada, to the previous 19 years of the ACAP allotments would identify a 2015 allotment of \$51.9 million. Some may argue the specialized nature of airport requirements would be more in line with the average inflationary cost of our examples of equipment replacement above. If it was assumed the inflationary cost of our industry was the average of our sweeper example it would identify a 5.8% rate, which indicates the 2015 allotment would be \$85.5 million. Regardless of the agreed method of determination it is obvious that a significant increase to the ACAP funding level is required, even if it is to simply reflect the federal government's recognized CPI rate.

## ***2. Program Predictability and Transparency***

Airports go through an extensive consultation process with Transport Canada staff regarding needs, eligibility parameters, thresholds and airport conditions and also discuss the likelihood of being considered for funding if a project were submitted. The result is some priority level 2 projects and most of priority level 3 projects are being pushed further and further into the future.

Consultation between airport operators and ACAP funding administrators is appreciated in order to know the probability of success of a project and to avoid waste of significant human and financial resources required in applying for projects that will not be considered. It should also be noted, however, that consultation prior to submitting projects has led to an underestimated funding need for the airports. Consultation between airport operators and ACAP funding administrators has meant that projects are vetted before being submitted, therefore Transport Canada is not seeing the full list of capital funding needs from small airports. There is a long list of infrastructure projects that have not been put forward because of the consultation process and feedback on the probability of project success.

The reality is that many small airports that were transferred from the federal government are now facing another wave of rehabilitations to runways and aprons, without consideration of increasing operational costs and monetary inefficiencies that have accumulated over more than a decade. In the absence of appropriate ACAP funding, the infrastructure and supporting equipment at these airports is becoming worn and aged and will require significant improvements and support for ongoing operation.

At present, the ACAP decision-making process remains an internal governmental procedure. Airports would benefit greatly from more transparency from the program, including the establishment of



timelines/deadlines for applications and approvals, notification of application receipt, and a flowchart or processing matrix that demonstrates the procedures through which an application must go for approval.

The application process should be streamlined by allowing airports to create and manage an online profile. This would eliminate duplication of efforts in filing forms and allow for applications to be delivered immediately to Transport Canada upon completion and provide instant confirmation of application receipt. Transport Canada could also use this system to communicate with all ACAP eligible airports and applicants to better manage communication with airports through the process.

### ***3. Regulatory Burdens and Weather Safety Equipment Challenges***

At the NAP's inception in the 1990s, the regulatory requirements on airports was significantly less administratively and financially cumbersome than it is today. Smaller airports across Canada bear this burden more heavily than larger airports as safety standards are not diminished relative to airport size.

Through the implementation of Safety Management Systems (SMS), updates to TP 312, and incoming Runway End Safety Areas (RESA) requirements, small airports are required to invest heavily and maintain a level of safety vigilance that did not exist when ACAP was formulated. In many cases, Transport Canada established guidelines and approvals based on older criteria and not on the optimum business case or long term plans of the airport.

For example, in some cases airports are only funded through ACAP for one plow truck or one sweeper. Regulatory requirements, turnaround times and changing climatic conditions see many airports require two or more units to provide safe and reliable operational conditions. However, it appears that these considerations are not being given weight in the ACAP approval process. The thresholds for mobile equipment needs in the ACAP program are not sufficient to meet the current demands of operating a safe and secure airport.

To draw a specific example, the mobile equipment allotments do not take into consideration that many airports operate aging and antiquated equipment that requires significant and frequent maintenance to remain operational. Specifically, ACAP only allows for the allotment of funding assistance for two sweepers at some airports in Atlantic Canada, meaning that when one machine is in for service there is only one sweeper to keep the runway clear. This is not sufficient and does interfere with air operations.

Airports have been keeping old equipment well past recommended lifecycles. The ACAP heavy mobile equipment thresholds take into account a variety of factors including snow accumulation history and the size of areas cleared. They do not account for maintenance time on these machines, changing flight schedules, and regulatory burden which are critical components in the planning of winter airport operations with highly specialized equipment. Many airports now require a third and fourth sweeper to keep up with airside snow removal demands and balance maintenance realities of aging equipment.

In addition, weather patterns have changed over the past 20 years. There are more high and low temperatures and airports require more equipment to keep up with the demands during severe

weather events. The threshold levels for heavy mobile equipment should be re-evaluated as they no longer meet the current safety requirements and operational demands.

#### 4. Program Eligibility

Canada's NAS approach has created a void in capital funding necessity in the aviation system that excludes NAS airports from capital funding support that would otherwise be eligible for ACAP if they were not located on federal land.

The availability of safety-related infrastructure funding for small NAS airports is a unique issue that affects six of Canada's smallest NAS airports: Prince George, Charlottetown, Fredericton, London, Gander and Saint John. Spread between five provinces, **these six NAS airports require varying levels of financial support to maintain their capital-intensive assets.**

The following are traffic levels at small NAS Airports and where they would fall in ACAP eligibility parameters for funding assistance if they were to be included in the program:

<b>Airport</b>	<b>Traffic</b>	<b>ACAP Percentage Funded</b>
Saint John	233,793	60% ACAP funding eligibility
Charlottetown	303,819	45% ACAP funding eligibility
Fredericton	299,100	50% ACAP funding eligibility
Gander	133,797	80% ACAP funding eligibility
London	463,690	15% ACAP funding eligibility
Prince George	430,409	20% ACAP funding eligibility

The NAP also recognizes the importance of the integrity and viability of the whole system. In fact, the policy states:

**"As a general rule, airports within the NAS system will be required to become self-sufficient (operating and capital costs), beginning 5 years from April, 1995. However, for certain NAS airports it is recognized that under-capitalization in the past and future capital requirements may result in adjustments in this principle."**

It is now time to adjust this principle. Small airport viability has been studied and referenced in reports dating as far back as 2002.

The National Airport System as a whole is financially sustainable, however, some parts of the system require financial capital assistance for safety-related projects to maintain the integrity of the entire transportation network. These six airports need financial assistance at varying levels. This situation has also been studied by Transport Canada in recent years and it is evident the financial viability challenges that these airports face are not going away. For some airports it has reached a critical point, equipment needs to be replaced and runways are in need of rehabilitation immediately.

Infrastructure projects requiring funding support have been submitted to Transport Canada staff in 2012, 2013 and 2014, but the response to the infrastructure need has been that “there is no current capital infrastructure program for small NAS airports.” Transport Canada staff have completed multiple financial assessments on this group of six small NAS airports and have agreed that these airports are not fully financially sustainable without access to some form of capital funding support.

The ACAP program exists to support airports with less than 525,000 passengers annually, but it excludes airports that are located on Crown land. Although the six small NAS airports serve less than 525,000 passengers, they are not eligible under existing ACAP parameters because the airport infrastructure is owned by the federal government and leased to airport authorities to operate.

While it is a reasonable expectation that crown owned assets should not be in competition for federal funding intended to support non-NAS airports, the reality remains that small NAS airports are experiencing the same hardships as non-NAS airports when it comes to funding capital requirements. These airports, deemed essential in the NAP, must be supported in some fashion to fulfil their roles as intended.

It is this partnership’s position that the most efficient and economical option for the federal government to provide a level of funding to small NAS airports in need is a review of the ACAP structure, with the intent of creating two distinct categories of ACAP eligibility along with two distinct allotments of funding under the same program. This would satisfactorily address the needs of NAS and non-NAS airports while affording the federal government the opportunity to provide support without additional program administration.

While this proposal for restructuring ACAP eligibility reflects a consensus among the partnered associations, the representative associations may have additional recommendations more specific to the needs of their respective members that could be pursued.

## **CONCLUSION**

The Airport Capital Assistance Program is a vital source of funding for safety related investments at small airports across Canada. After over 20 years in existence it is clear that the program needs improvements in order to keep pace with the forces of inflation, regulatory burden, and time in order to remain a viable resource for the many small airports across Canada that rely on it.

## **RECOMMENDATIONS (FOR DISCUSSION)**

1. To improve the provision of ACAP funding to the eligible airports that need it on a consistent and predictable basis, the program should be reconsidered on the following basis:
  - Review and revise project eligibility criteria and processes that currently lead to inconsistent decision-making and rejection of projects, currently experienced both regionally and nationally.
  - Improve airport/government communications and expectations by providing clearer communications on the ACAP decision making process, considerations and timelines.

2. Restructure the current ACAP into a two category program: one category for existing ACAP eligible airports, and one category for the small NAS airports. ACAP should continue to utilize the same contribution funding criteria and formula for each category.

For this recommendation to be viable, separate additional funding for the small NAS airports category is required.

The partnered groups are of consensus that two separate categories of airports and allotments of funds is the only way forward in keeping with the intent and commitments within the NAP.

3. Increase the funding envelope for the ACAP in its new two category structure. Funding for current ACAP eligible airports should be increased to \$70 million annually and a separate \$7 million annually should be provided for the small NAS airports category.

Funding levels should be reviewed biennially to ensure program funding keeps pace with industry needs.

4. Review and re-establish threshold levels and acceptable technical specifications for heavy mobile equipment to appropriately meet the realities of the current regulatory and operational environments. A “one size fits all” approach cannot address the realities of our industry.
5. Ensure all new regulatory requirements that place a cost burden on ACAP eligible airports are 100% ACAP funded in the future.
6. If the Government of Canada is to undertake a large scale review of the National Airports Policy to reflect a modern, sophisticated and appropriate vision for Canada’s airports for the next 20 years, we would anticipate that any such review would articulate the need to provide essential and appropriate capital funding for small airports.



