

Report to Council



Date: August 28, 2023
To: Council
From: City Manager
Subject: Kelowna International Airport 2023 Financial Plan and Bylaw Amendment
Department: Kelowna International Airport

Recommendation:

THAT Council receives for information the report from Kelowna International Airport dated August 28, 2023, with respect to the amendment of the City of Kelowna 2023 Financial Plan and Bylaw amendment;

AND THAT the 2023 Financial Plan be amended to include \$17,500,000 in capital costs associated with the Air Terminal Building Expansion as outlined in the report from Kelowna International Airport dated August 28, 2023;

AND FURTHER THAT Bylaw No. 12578 being Amendment No. 40 to the City of Kelowna Airport Fees Bylaw 7982 be advanced for reading consideration.

Purpose:

To obtain Council's approval to amend the City of Kelowna 2023 Financial Plan and amend the Kelowna International Airport Fees Bylaw No. 7982.

Background:

2045 Master Plan

The [2045 Master Plan](#) speaks to the need for the Airport Terminal Building (ATB) Expansion in *Volume 1, Section 8.3 ATB Expansion*, and *Volume 1, Section 8.4 Air Terminal Building Expansion*. In addition, *Figure 56 on page 89* provides a drawing of the terminal development concept. As outlined in the Consultation Report (*Appendix C* of the 2045 Master Plan), between March 2015 and October 2016 the Master Plan 2045 communication and engagement program included:

- over 45 stakeholder meetings, presentations, and workshops
- two open houses

- print and electronic advertising materials, including newspaper, print ads, display boards, surveys, handouts, and presentations
- over 300 feedback forms received
- advertising posts were made on YLW's website, Facebook, Twitter, and Instagram

Nine priorities were identified from the 2045 Master Plan public engagement and the ATB Expansion addresses three of these priorities:

- faster security screening
- greater food and beverage choices
- the ability to have more direct flights and flights overseas

Airport Advisory Committee Support

On October 29, 2019, the Airport Advisory Committee (the AAC) supported the proposed Soaring Beyond 2.5 Million Passengers Airport Improvement Fee (AIF) Program as presented, obtaining the approval of Council for a capital budget request of \$69,900,000 for the Soaring Beyond 2.5 Million Passengers AIF Program in the 2020 Financial Plan, and obtaining the approval of Council to increase the AIF to \$25, effective March 1, 2020. This meeting was open to the public and the AAC consisted of the City of Kelowna Mayor, a City of Kelowna Councilor, and a representative from the community at large, the aviation industry, University of British Columbia Okanagan, the Central Okanagan Regional District, City of Vernon, City of Penticton, City of Salmon Arm, District of Peachland, District of Lake Country, District of West Kelowna, Kelowna Chamber of Commerce, South Okanagan Chamber of Commerce, Summerland Chamber of Economic Development and Tourism, Vernon Chamber of Commerce, Greater Westside Board of Trade, Westbank First Nations, the Economic Development Commission, and Tourism Kelowna.

Council Approval of an Increase in the AIF to \$25

On November 4, 2019, Council publicly approved a \$5 increase to the Airport Improvement Fee in order to help fund the Soaring Beyond 2.5 Million Passengers AIF capital program, including the ATB Expansion.

AAC Update

On September 22, 2022, the AAC received a report that included an update on the ATB Expansion and the enabling works currently underway. This meeting was open to the public.

Council Orientation

On November 21, 2022, Council received a report that provided an overview of Kelowna International Airport's (the Airport) finances and its 10-Year Capital Plan. This report indicated that the Airport would draw down on all of the AIF reserves and increase its debt principal payments outstanding to just under \$40,000,000 in 2025 in order to fund the Soaring Beyond 2.5 Million Passengers AIF capital program.

Council Approval of the Airport Terminal Building Expansion Budget

Within the City of Kelowna's 2020 Financial Plan, Council approved a capital budget of \$67,275,000 for the construction of the ATB Expansion within the Soaring Beyond 2.5 Million Passengers AIF Program.

In 2020, the COVID-19 pandemic had a significant negative impact on the Airport's business, which caused a decrease in passengers from 2.0 million in 2019 to 0.7 million in 2020. As a result, the ATB Expansion was put on hold in 2020. Passenger numbers remained low in 2021 at 0.8M, but the Airport experienced healthy growth in 2022 and reached 1.7 million passengers.

In July 2022, Council approved an amendment to the City of Kelowna's 2022 Financial Plan to increase the capital budget of the ATB Expansion by \$500,000 for the cost to create a digital twin of the construction of the ATB Expansion, which would be reimbursed by a Provincial grant.

Within the City of Kelowna's 2023 Financial Plan, Council approved a capital budget of \$33,600,000 for the Soaring Beyond 2.5 Million Passengers AIF Program, of which \$22,900,000 was an increase to the ATB Expansion capital budget.

The City of Kelowna's 2023 Financial Plan includes total approved budget for the construction of the ATB Expansion of \$90,675,000, of which approximately \$5,000,000 has been spent on enabling works.

Council Approval of Borrowing

In March 2023, Bylaw No. 12480 being Kelowna International ATB Expansion Loan Authorization Bylaw was given third reading, providing the Airport with the ability to borrow up to \$48,000,000 for the construction of the ATB Expansion.

Construction of the ATB Expansion

In late 2019, PCL Construction was selected as the successful proponent for the ATB Expansion construction management contract. In 2020 through 2023 PCL, YLW and design consultants worked on the engineering, design, and phasing of the ATB Expansion. This included an extensive value engineering exercise initiated due to the pandemic related pressures including, but not exclusively related to, cost escalation and supply chain risks. The construction tender package was issued in March 2023 and closed in May 2023.

Discussion:

Based on the responses to the ATB Expansion construction tenders, the estimated cost for the ATB Expansion, including costs incurred as of the date of this report, is \$108,175,000. As a result, the Airport is proposing a \$17,500,000 increase to the 2023 Financial Plan capital expenditures for the ATB Expansion, which would be funded from the Airport reserve with no impact on taxation.

The increased cost of construction for the ATB Expansion is due to cost escalation, supply chain issues, and the extent of local and regional construction projects resulting in limited trade and labour availability. The \$22,900,000 cost increase approved as a part of the 2023 Financial Plan, was based on a cost estimate completed in 2021, updated to include escalation for 2022 and 2023. At the time that budget

was submitted, inflation was expected to drop more quickly than it has. In addition, this contract is for a 3-year construction, and the availability of trades, labour, and supply chain issues have lengthened the schedule which has resulted in additional financial pressure on the costing.

The significant construction underway and approved to begin within the region has had a notable impact on the availability and cost strategies of sub-contractors. This, along with increased labour costs within the workforce, has resulted in escalated costs. In addition, the timing of construction overlaps with many of the significant projects in the region (e.g. UBCO downtown campus, Water Street Towers, etc.).

Due to the increase in cost, the Airport has taken a look at its 10-year AIF capital program and adjusted it to meet the Airport's operational needs and financial goals. As shown below, this program anticipates approximately \$360 million of AIF capital investment over 10 years.

	Total	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Soaring Beyond 2.5 Million Passengers AIF Program											
Terminal expansion	142.1	37.5	38.9	22.5	2.6	2.7	2.8	-	-	4.1	31.0
Combined operations building	22.7	8.0	6.3	3.0	5.4	-	-	-	-	-	-
Airside pavement rehab	129.5	4.7	1.1	2.0	26.8	21.0	4.3	22.9	27.4	12.1	7.2
Airside equipment	29.1	5.4	1.0	0.5	3.4	4.5	1.6	1.2	0.3	7.8	3.4
Self-serve baggage drop	2.3	-	-	-	2.3	-	-	-	-	-	-
Airside lighting and supporting infrastructure	8.1	-	8.1	-	-	-	-	-	-	-	-
Apron 1 south expansion	17.4	-	-	-	0.9	8.1	8.4	-	-	-	-
Passenger boarding bridges	8.2	-	-	-	2.7	2.8	2.7	-	-	-	-
Total	359.4	55.6	55.4	28.0	44.1	39.1	19.8	24.1	27.7	24.0	41.6

 Design
 Construction/purchase

This capital investment would be fully funded from the Airport through collection of the AIF and the use of debt, which would be repaid with AIF funds. There would be no impact on taxation.

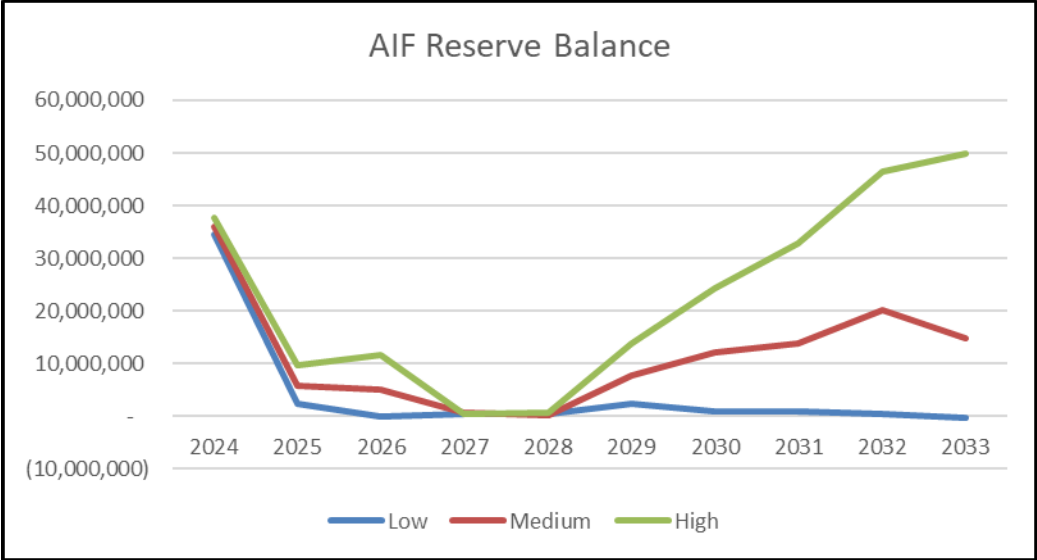
To fund the capital investment, the Airport's AIF is anticipated to remain at \$25.00 per enplaned passenger in 2024, and increase to a maximum of:

- \$28.00 per enplaned passenger effective January 1, 2025,
- \$31.00 per enplaned passenger effective January 1, 2026,
- \$35.00 per enplaned passenger effective January 1, 2033.

In addition, the Airport anticipates borrowing:

- \$48 million in 2024/25 to help fund the ATB expansion, and
- \$23 million in 2027/28 to help fund the runway rehabilitation.

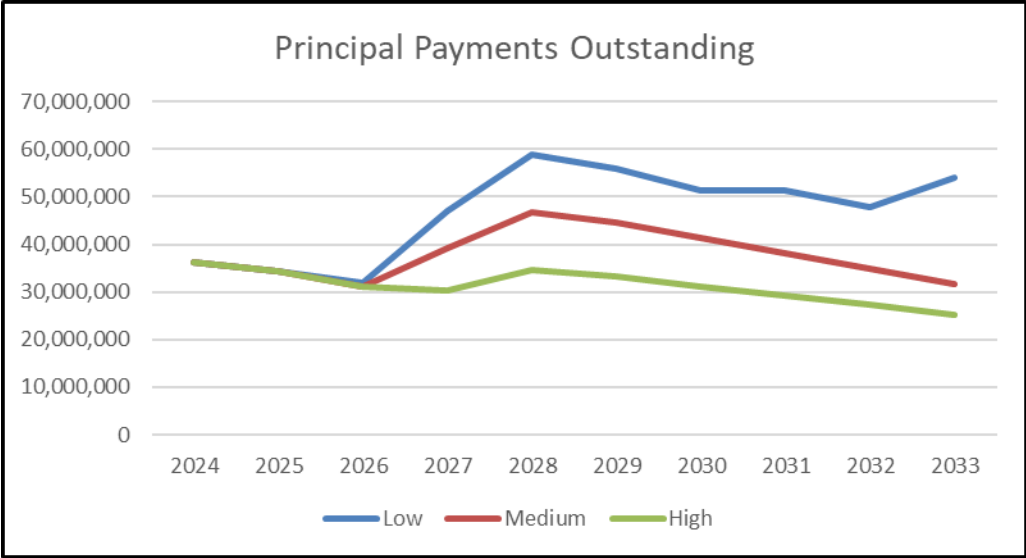
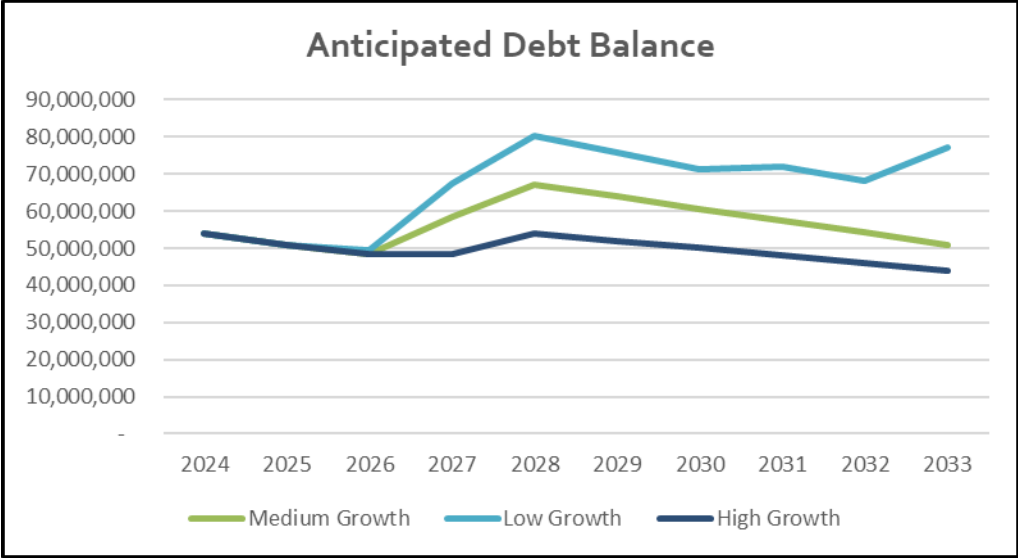
The Airport's AIF reserve would be drawn down to Nil during the construction of the ATB Expansion and would start to increase again in 2029, providing funds for future strategic capital investments.



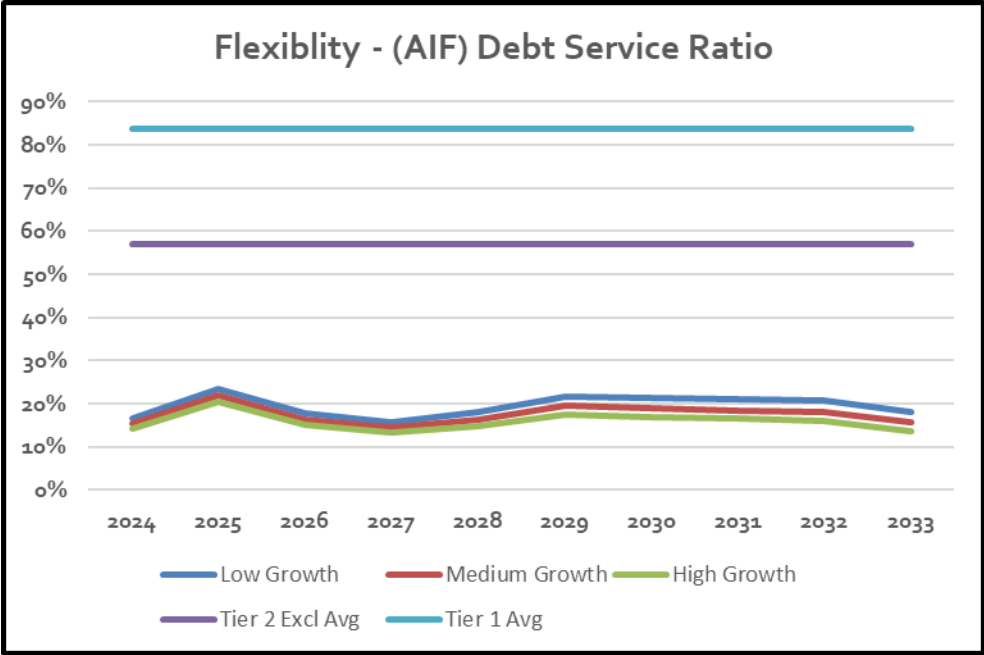
The Airport’s total debt outstanding is anticipated to fluctuate between \$48 million and \$67 million between 2024 and 2033, with principal payments outstanding anticipated to fluctuate between \$31 million and \$47 million during the same time.

The Airport’s annual principal and interest payments are anticipated to fluctuate between \$3.6 million and \$6.6 million between 2024 and 2033. The maximum number of annual passengers the Airport would need in order to earn sufficient revenues to pay for the debt payments is 478,000, if the proposed AIF increases are approved. During the COVID-19 pandemic, the lowest annual passenger numbers was 737,000 in 2020; however, the Airport had 373,000 passengers during the first 12 months of the COVID-19 pandemic.

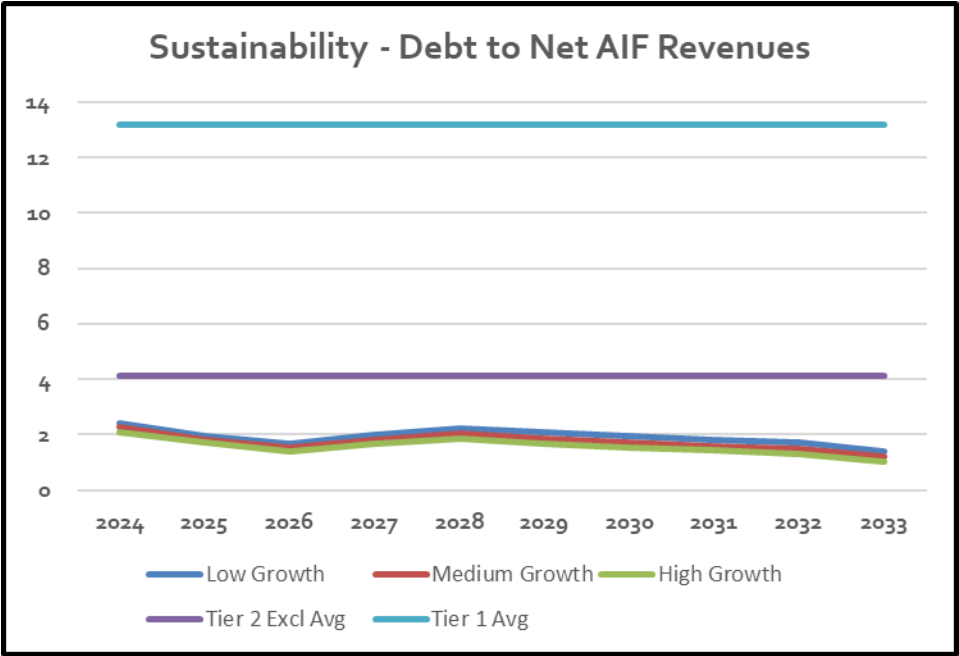
In the following graphs, the medium growth forecast represents the Airport’s decision-making forecast, as the Airport has historically normalized to medium passenger growth. The low and high passenger growth information is provided for information. If the Airport experienced low passenger growth, it is anticipated that capital investment would not occur as quickly as the new or rehabilitated infrastructure would not be needed as quickly. If the Airport experienced high passenger growth, it is anticipated that future projects would be accelerated as they would be needed more quickly.



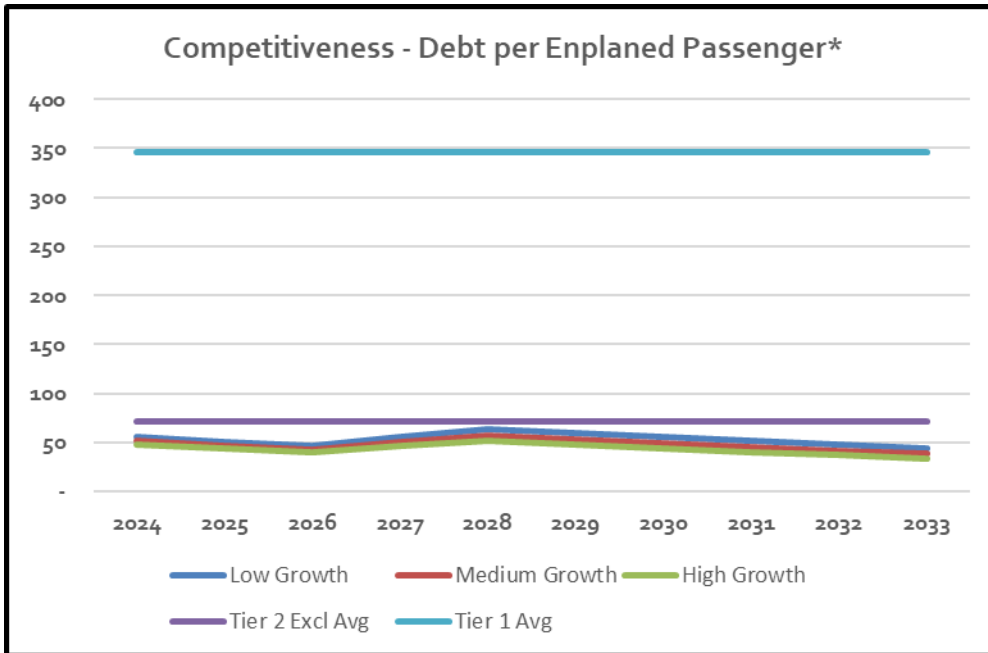
The Airport believes that the proposal will maintain the financial health of the Airport, as shown below. In the following graphs, the Tier 1 average includes all of the Tier 1s: Toronto Pearson, Vancouver, Montreal, Calgary, Edmonton, Ottawa, Winnipeg, and Halifax. The Tier 2 excl. average includes Toronto Billy Bishop, Victoria, St. John’s, Saskatoon, Regina, Prince George, London and Moncton. Quebec City and Fort McMurray have been excluded from the Tier 2 average as they have substantially more debt outstanding than the other Tier 2 airports.



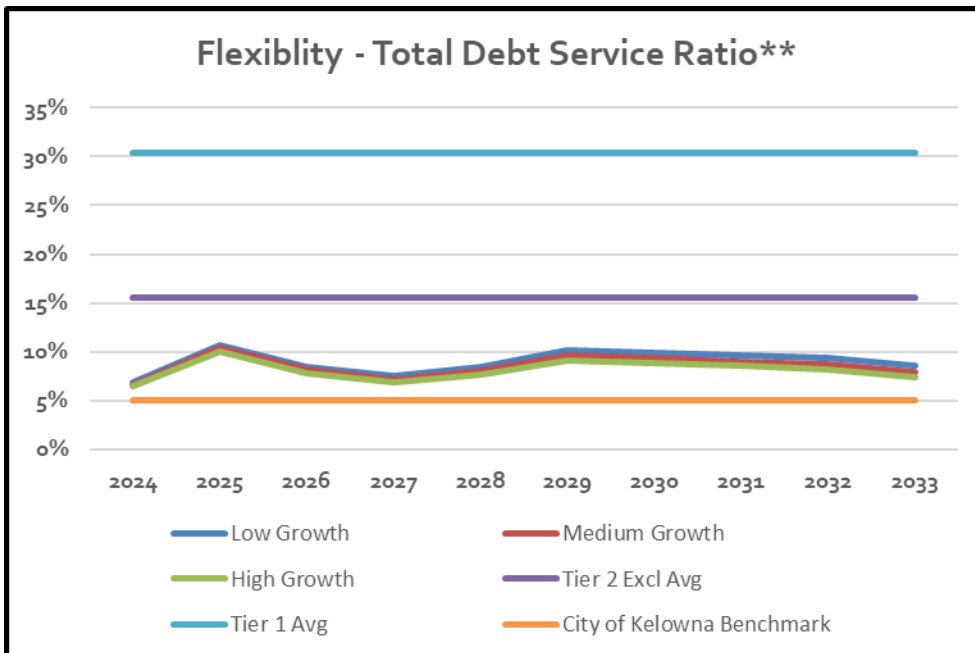
The above graph divides the principal and interest payments by AIF revenues and shows what percentage of the Airport's AIF revenues are forecasted to go towards paying the debt on an annual basis.



The above graph divides the total debt outstanding by the annual AIF revenues.



* The City of Kelowna's 2022 debt per capita was \$565.



** The City of Kelowna's 2022 debt service ratio was 3.3%.

Conclusion:

The Airport recommends Council approve amending the City of Kelowna 2023 Financial Plan to include an additional \$17,500,000 in capital expenditures for the ATB Expansion, as outlined in this report. The Airport also recommends that Bylaw No. 7982 be amended to provide the Airport with the ability to increase the AIF to a maximum of \$28.00 per enplaned passenger effective January 1, 2025.

Internal Circulation:

Financial Services
City Clerk's Office
Communications

Considerations applicable to this report:

Financial/Budgetary Considerations:

If approved, the City of Kelowna 2023 Financial Plan would be amended to include an additional \$17,500,000 in capital expenditures. The expenditures would be funded from the Airport Fund and there would be no impact to taxation.

If approved, the Airport would have the ability to increase the AIF to \$28.00 per enplaned passenger effective January 1, 2025, so a corresponding increase in AIF revenues would be brought forward as a part of the preliminary 2025 Financial Plan.

Legal/Statutory Authority:

Community Charter, s. 165
Community Charter, s. 194

Existing Policy:

Council Policy No. 262 Financial Plan Amendment Policy

Considerations not applicable to this report:

Legal/Statutory Procedural Requirements:

External Agency/Public Comments:

Communications Comments:

Submitted by:

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Approved for inclusion:

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