Sturgeon County

Agenda Item: D.1

Request for Decision

Title	**Edmonton Global – Regional Air Service Opportunity Fund Request**
Proposed Motion	That Council approve the requested Sturgeon County contribution of $342,780 over three years to the Regional Air Services Opportunity Fund, to be released upon receipt of clear metrics and outcomes for the Fund on the approval of the County Commissioner as follows: $68,556 for 2021 from the Economic Development Reserve, $137,112 for 2022 to be included in Budget 2022, and $137,112 for 2023 to be included in Budget 2023.
Administrative Recommendation	That Council approve the funding requested by Edmonton Global for the Regional Air Service Opportunity Fund, subject to clear metrics and fund outcomes.
Previous Council Direction	June 8, 2021 Regular Council Meeting Motion 311/21: That Council direct Administration to bring a Request for Decision forward to the June 22, 2021 Council meeting with information and a recommendation on Sturgeon County's potential contribution to an Air Service Opportunity Fund for the Edmonton International Airport; and that the Administrative Backgrounder of item D.1 of the June 8, 2021 Council Meeting Agenda remain confidential in accordance with section 16 (disclosure harmful to business interests of a third party) of the *Freedom of Information and Protection of Privacy Act*.
Report	Background Information • Edmonton Global (EG) and the Edmonton International Airport (EIA) have identified an urgent need to establish an incentive fund to attract airlines to reinstate direct flights from the EIA. The 15 shareholder municipalities of EG have been asked for a one-time levy contribution of $15 million to create a Regional Air Service Opportunity Fund ("RASOF" or "the Fund"). Each municipal contribution is based on the EG cost-sharing formula. • In addition to the Fund, EIA will waive $12 million of operating fees to incentivize airlines. • The Fund requires a three-year commitment contributed annually. The three-year commitment demonstrates the regions support for airline route renewal and expansion, provides predictability and

certainty for the Fund, and provides the EIA and EG the ability to negotiate as required with the airlines.

- An Agreement will be sent out by EG to municipalities participating in the Fund.

Response from Edmonton Metropolitan Region Municipalities

- The following municipalities have approved their contribution to the Fund: City of Edmonton, City of Fort Saskatchewan, Leduc County, and the Town of Devon.
- The City of St. Albert is considering making their Year 1 contribution at their next Council meeting on June 21st, and potentially tying Year 2 and Year 3 contributions to an alternative funding model that considers some form of return on investment to municipal contributors.
- Other municipalities are anticipated to make decisions on the Fund the week of June 21st.

Why Create and Support the Fund?

- The EIA has seen a dramatic reduction in flights to direct destinations from 52 to 13 since the imposition of federal restrictions on international flights. Airlines are beginning to prepare their 2022 and 2023 flight routes and there are concerns that without the Fund the EIA may not be considered in their routing plans. It is believed that urgent action is required.
- Direct flight connectivity is an important part of site selection, and the loss of direct flights makes the region less attractive. As EG has stated, people do not relocate to, and businesses do not invest in, locations they cannot easily access.
- EG has stated that collectively, the region is expected to see 7,000 jobs created, an increase to gross domestic product (GDP) of $415 million, and a total economic impact of $811 million. Determining individual ROI for a municipality is difficult as it depends on understanding the role that air service plays for the businesses in each municipality. EG is undertaking a program to engage the region's business community to address the data gap.

How will the Funding be Used and Managed?

- Detailed Information on how the fund will be managed, and the Governance & Accountability Framework are provided in Attachment 1 (Staff Briefing on RASOF) and Attachment 2 (Edmonton Global – Governance & Accountability).
- The Fund will be managed by EG. Requests to the funds will be evaluated using the Evaluation Criteria provided in Attachment 2.
- Risk mitigation efforts include the development of key control points to be used by the EG board, CEO, and EG committees in evaluating business cases. An independent auditor, and the Audit

& Finance Committee provide second and third line governance oversight.

Analysis

- Sturgeon County has long recognized the importance of air service and its impact on economic growth and development through investments and support of the Villeneuve Airport and surrounding lands, and its work with the EIA.
- Natural linkages between the Edmonton Metropolitan Region and the County specifically have been disrupted. For example, there are no longer direct flights between Edmonton and Houston, Texas. Direct flight connectivity is an important part of site selection, and the loss of direct flights makes the region less attractive.
- There has also been a reduction in leisure travel that impacts residents in the County and the greater region.

External Communication

- This matter has been raised in public both during Sturgeon County Council and in regional discussions.
- Council's decision will be communicated to EG, EIA, and other regional stakeholders.

Relevant Policy/Legislation/Practices:

- None.

Implication of Administrative Recommendation

Strategic Alignment:

Strong Local Governance and Regional Leadership – Support of the Air Services Opportunity Fund affirms Council's support of a strategic regional effort and promotes consistent and accountable leadership through collaborative and transparent processes.

Planned Growth & Prosperity – Direct flight connection with locations that are strategically important to Sturgeon County and the greater Edmonton Metropolitan Region will support a vibrant business environment and maintain or strengthen the County's economic foundation.

Maintain and Enhance Strong Communities – Ensuring the EIA's international airport status maintains resident travel-related access and affordability.

Organizational:

The creation of the Fund does not have a direct impact on the County's organizational capacity. However, the lack of direct flight access to key destinations linked to economic development priorities may have an impact on business investment and attraction efforts and require adjustments to staff work plans or attraction strategies.

Financial:

Year	Funding Source		Contribution
2021	Economic Development Reserve	$	68,556
2022	Budget 2022	$	137,112
2023	Budget 2023	$	137,112
		$	342,780

The financial contribution per year is below as follows:

The Economic Development Reserve currently has an available balance of $471,395. Should Council approve the contribution and proposed funding, the balance would then be $402,839.

Alternatives Considered

Council could decide not to contribute the requested $342,780 in funding to Edmonton Global / Edmonton International Airports.

Implications of Alternatives

Strategic Alignment:

A decision not to contribute may reduce the potential of the Fund to achieve its goals, and this would likely have an impact in the longer term on the County's economic development activities, the ability to capitalize on tourism to the region, reduced markets for value-added agriculture, and limited options for direct flights for Sturgeon County residents.

Administration is hopeful that a decision not to contribute would not harm the relationship built with the EIA around the Villeneuve Airport and other priorities, or other regional stakeholders.

Organizational:

None.

Financial:

None.

Follow up Action

1. Work with Edmonton Global to ensure clear outcomes and metrics are developed for the Fund before the release of Sturgeon County's contribution (Development and Strategic Services, June 2021).
2. Report back to Council on the impacts and administration of the Fund by Edmonton Global (Development and Strategic Services, ongoing).

Attachment(s)	1. Attachment 1 - Administrative Briefing Re: Regional Air Service Opportunity Fund
Report Reviewed by:	Milad Asdaghi, Strategic Initiatives Lead, Development and Strategic Services Tyler Westover, Manager, Economic Development Services Sabrina Duquette, Manager, Financial Services Travis Peter, Director, Development and Strategic Services Reegan McCullough, County Commissioner – CAO

Strategic Alignment Checklist

Vision: *Sturgeon County: a diverse, active community that pioneers opportunities and promotes initiative while embracing rural lifestyles.*

Mission: *Provide quality, cost effective services and infrastructure to meet the diverse needs of the Sturgeon County community, while improving competitiveness and sustainability.*

Focus Areas	**Not consistent**	**N/A**	**Consistent**
Planned Growth and Prosperity			
We encourage varied and integrated enterprises that enhance our strong economic base, while balancing the needs of the community and natural environment. (Strategic Plan and MDP pg. 36)	☐	☐	☒
• *Supports a strong thriving business environment to strengthen our economic foundation*	☐	☐	☒
• *Plans for responsible growth through the MDP and regional growth plan.*	☐	☒	☐
• *Manages growth for current and future developments through:*			
○ *transparent bylaws, policies and processes to enable responsible land development*	☐	☒	☐
○ *targeting growth around existing and identified future growth areas*	☐	☐	☐
Maintain and Enhance Strong Communities			
We are committed to a safe and viable community, where our residents are provided with access to opportunities and quality of life. (Strategic Plan and pg. 27 MDP)	☐	☐	☒
• *Provides access to programs and services that have a positive impact on residents' quality of life*	☐	☐	☒
• *Provides access to safe and reliable infrastructure assets*	☐	☐	☒
• *Supports the safety of people and property*	☐	☒	☐
Strong Local and Regional Governance			
We promote consistent and accountable leadership through collaborative and transparent processes (Strategic Plan and pg. 27 MDP)	☐	☐	☒
• *Provides effective leadership and management consistent with Strategic Plan, MDP, master plans, bylaws, policies, community engagement*	☐	☒	☐
• *Considers fiscal stability and sustainability*	☐	☐	☒
• *Fosters collaborative intergovernmental partnerships*	☐	☐	☒
Community Identity & Spirit			
We will build upon our strengths, where together we will create an inclusive, caring community (Strategic Plan and MDP pg. 27)	☐	☒	☐
• *Promotes and/or enhances residents' identification with Sturgeon County*	☐	☒	☐
• *Support and/or collaborate with voluntary organizations in the region*	☐	☒	☐
Environmental Stewardship			
We foster a healthy environment and minimize our impact on ecosystems. (Strategic Plan and MDP pg. 27)	☐	☒	☐
• *Plans and partnerships that minimize environmental impact on natural areas*	☐	☒	☐
• *Provides awareness of environmental issues impacting the County*	☐	☒	☐

Attachment 1

Sturgeon County

June 18, 2021

Regional Air Service Opportunity Fund
For Information

PURPOSE

To provide background information on a request by Edmonton Global ("EG) for support in creating a $15 million Regional Air Service Opportunity Fund ("ASOF").

BACKGROUND

Edmonton Global (EG) and the Edmonton International Airport (EIA) have identified an urgent need to establish an incentive fund to attract airlines to reinstate direct flights from the EIA. The 15 shareholder municipalities of EG have been asked for a one-time levy contribution of $15 million to create a Regional Air Service Opportunity Fund ("RASOF" or "the Fund"). Each municipal contribution is based on the EG cost-sharing formula.

In addition to the Fund, EIA will waive $12 million of operating fees to incentivize airlines.

The Fund requires a three-year commitment contributed annually. The three-year commitment demonstrates the regions support for airline route renewal and expansion, provides predictability and certainty for the Fund, and provides the EIA and EG the ability to negotiate as required with the airlines.

An Agreement will be sent out by EG to municipalities participating in the Fund.

Response from Edmonton Metropolitan Region Municipalities

The following municipalities have committed to the Fund:

- The City of Edmonton has approved a contribution of $9.88 million towards the ASOF with the condition that outcomes and metrics be created to the satisfaction of the City Manager before releasing funds to EG.
- Leduc County has made a commitment of $1.5 million ($500,000 per year for the next three years). The contribution is above the EG requested levy.
- The City of Fort Saskatchewan has approved a contribution of $354,132 for the Fund over three years.
- The Town of Devon approved their contribution on June 14, 2021.

The City of St. Albert is considering making their Year 1 contribution at their next Council meeting on June 21st, and potentially tying Year 2 and Year 3 contributions to an alternative funding model that considers some form of return on investment to municipal contributors. They have suggested that the RASOF provides an opportunity to pilot the application of the Collaborative Economic Development (CED) framework and methodology. However, recent correspondence from the City of Edmonton has suggested that the CED methodology is not a good fit with the RASOF. A shared benefit from shared investment model is based on direct revenue generated from the investment.

Contact: Milad Asdaghi, Strategic Initiatives Lead, masdaghi@sturgeoncounty.ca

With the RASOF direct revenues generated for the EIA from new flights are predicated on multi-million-dollar investments that should be considered in any return on investment (ROI) calculation. Factoring this into the ROI will impact the return municipalities should expect from their contributions to the RASOF. Contributions to the RASOF are best seen as an investment in regional economic growth, as opposed to investing with the intention of realizing direct returns.

Other regional municipalities are anticipated to make decisions the week of June 21st.

Why Create and Support the Fund?

As a response to COVID-19, the federal government restricted international flights to four of the largest airports in Canada, and the EIA was not among them (being the fifth largest at the time). The EIA has since seen a dramatic reduction in flights to direct destinations from 52 to 13. Airlines are beginning to prepare their 2022 and 2023 flight routes and there are concerns that without the Fund the EIA may not be considered in their routing plans. It is believed that urgent action is required, and that provincial and federal governments are unwilling or unable to act with the swiftness required. To date, advocacy efforts have not yielded the desired results from those levels of government.

There are concerns that the EIA will be relegated to the conditions of a regional airport, losing international connections, and losing the role of a connection hub between the near and far north to Calgary.

There is a significant decrease in economic impact when comparing a regional airport to an international airport. In 2019, the EIA generated an economic value of greater than $3.2 billion, direct and indirect jobs of 26,000, and a passenger count of 8.2 million. In comparison, the average regional airport generates an economic value of greater than $1.05 billion, direct and indirect jobs of 5,028, and a total passenger count of approximately 1.49 million.

“Belly cargo” is cargo shipped on passenger flights and makes up over 50% of cargo transported by air. The loss of passenger flights has had and will continue to have a significant impact on the movement of cargo into and out of the region.

Direct flight connectivity is an important part of site selection, and the loss of direct flights makes the region less attractive. As EG has stated, people do not relocate to, and businesses do not invest in, locations they cannot easily access.

Value-added agricultural products and air service considerations:

- As food processing becomes increasingly important for Canada and Alberta, there will be increased demand for multi-model (including air cargo) transport of consumer goods.
- A recent investment by the EIA created a federally certified food production facility out of a former flight kitchen space. This type of investment bodes well for the County’s economic development activities around value-added agriculture. The County is well-positioned to benefit from growth in the agri-food sector, and strong air service links for export will contribute to this growth.

The EIA is the closest airport in North America to export centers across Asia. This fact should be further leveraged by the region to foster economic growth.

Funding Requested from the County

Sturgeon County has been asked to support the Fund over the next three years. The table below outlines the levy being requested from Sturgeon County and the total amount of the Fund for each year.

	Year 1	Year 2	Year 3	Total
Air Services Opportunity Fund	$3 Million	$6 Million	$6 Million	**$15 Million**
Sturgeon County	$68,556	$137,112	$137,112	**$342,780**

The Year 1 commitment is expected in June 2021. Billing for 2022 and 2023 will be sent out in March / April of the respective year.

How will the Funding be Used?

According to EG and EIA, the funding will be used to:

- Help offset airlines costs to competitively accelerate the renewal of direct flights over the next three years;
- Reduce the start-up risk for airlines and incent return to key markets required by business and tourism communities; and
- Provide direct incentives to airlines for related setup costs to commit to the region. Examples of these costs are ground handling and de-icing contracts, staffing, IT and marketing, and sales support. Airlines make decisions based on local costs and balance sheets for their mobile assets.

Return on Investment (ROI) for the Region's Municipalities

EG has stated that collectively, the region is expected to see 7,000 jobs created, an increase to gross domestic product (GDP) of $415 million, and a total economic impact of $811 million. Determining individual ROI for a municipality is difficult as it depends on understanding the role that air service plays for the businesses in each municipality. EG is undertaking a program to engage the region's business community to address the data gap.

Governance & Accountability of the Fund

Administration has yet to see a final version of the Governance & Accountability Framework. However, the draft version addressed items such as core principles, evaluation criteria, and risk mitigation workflow. These elements reflect generally accepted and followed business principles and practises.

Risk mitigation efforts include the development of key control points to be used by the EG board, CEO, and EG committees in evaluating business cases. An independent auditor, and the Audit & Finance Committee provide second- and third-line governance oversight. CAOs in the region have reviewed the

draft Framework and most expressed an understanding that these reflected widely accepted standards and practises.

What is not clearly articulated at this stage are the anticipated outcomes. EG is aware of this and is working to provide further clarity. Council concern regarding the lack of clear outcomes is addressed through the recommendation that the County contribution is not released until outcomes that are acceptable to the County Commissioner have been developed by EG.