



TO: GENERAL COMMITTEE

SUBJECT: SALE OF SHARES OF THE LAKE SIMCOE REGIONAL AIRPORT

PREPARED BY AND KEY CONTACT: C. SMITH, SENIOR MANAGER, ACCOUNTING AND REVENUE

SUBMITTED BY: C. SMITH, SENIOR MANAGER, ACCOUNTING AND REVENUE

GENERAL MANAGER APPROVAL: C. MILLAR, CHIEF FINANCIAL OFFICER AND TREASURER

D. MCALPINE, GENERAL MANAGER, COMMUNITY AND CORPORATE SERVICES

CHIEF ADMINISTRATIVE OFFICER APPROVAL: M. PROWSE, CHIEF ADMINISTRATIVE OFFICER

RECOMMENDED MOTION

1. That in order to divest the City of Barrie's ("City") remaining 10% investment in the shares of the Lake Simcoe Regional Airport Inc. ("LSRA") and subject to the approval of the County of Simcoe ("County"), which currently owns 90% of the shares in the LSRA, the Mayor and City Clerk be authorized to execute a Share Purchase Agreement as well as any related or ancillary documents that would reflect:
 - a) The County's purchase of LSRA shares from the City, such that the City's share ownership would be decreased from 10% to 0% and the County would become the sole shareholder as of January 1, 2024;
 - b) A reduction in the City's apportioned contribution for maintenance, operation, capital or borrowing charges to the LSRA from 10% to 0%;
 - c) The elimination of the number of Directors appointed to the Board of the LSRA by the City to reflect the City's 0% equity in the LSRA;
 - d) The Management Services Agreement between the City and the LSRA be terminated as of January 1, 2024; and
 - e) Further amended provisions that may be appropriate to reflect the changes in shareholdings in the LSRA, with any such provision to be in keeping with the existing agreement terms and subject to the satisfaction of the Chief Administrative Officer, Chief Financial Officer/Treasurer and Director of Legal Services.
2. That staff consult with the County and the LSRA regarding other transitional matters between the City and the LSRA which will be concluded as at the date of the share purchase by the County.
3. That the proceeds associated with the County's purchase of shares, with an approximate value of \$1.303 million, be applied to the LSRA's outstanding capital budget requests to the end of 2023, with the remaining balance of \$1.211 million to be allocated to the County Capital Reserve.
4. That the \$3.361 million balance in the Airport Infrastructure Reserve be transferred to the County Capital Reserve.

PURPOSE AND BACKGROUND

Purpose

5. The purpose of this report is to recommend the sale of the remainder of the City's ownership interest in the LSRA. to eliminate the City's financial commitment for the necessary capital investments required to expand the LSRA to serve future business and employment opportunities. The County has expressed an interest in acquiring the remainder of the City's shares to support these business development opportunities.

Background

6. In 2009, the City and the Township of Oro-Medonte ("Oro-Medonte") authorized the creation of a municipal services corporation to manage the strategic and day to day requirements of the LSRA. The equity ownership and responsibility for sharing of all operating and capital costs was apportioned between the two shareholders at the time, the City (80%) and Oro-Medonte (20%). An agreement ("Airport Agreement") was established between the two municipalities that set out the specific terms for the governance and management of the LSRA.
7. In 2014, the Airport Agreement was amended to reflect the County's purchase of 20% of the LSRA shares from the City. As a result, the share structure at that date was as follows:
 - City of Barrie – 60%
 - County of Simcoe – 20%
 - Township of Oro-Medonte – 20%
8. On June 18, 2018, City Council adopted motion 18-G-154 as follows concerning the Lake Simcoe Regional Airport Strategic Plan

"That the Lake Simcoe Regional Airport (LSRA) Strategic Plan be endorsed, in principle and that staff in Invest Barrie and the Finance Department review the LSRA Strategy Plan and report back to General Committee on the business case and recommendations for funding alternatives including opportunities to work with our airport partners to obtain infrastructure funding from other levels of government."
9. The strategic plan for the LSRA presented a three-phase plan that focused on developing infrastructure (including a runway expansion) in Phase 1 to position the LSRA to enhance corporate aviation and maintenance, repair, and operations business. Phases 2 and 3 were identified as a future state that would be demand-based and expand LSRA users to include commercial travel.
10. On May 13, 2019, City Council adopted resolution 19-A-90 concerning Investment Opportunities at the LSRA, as follows:

"That in response to the investment opportunities at the Lake Simcoe Regional Airport (LSRA) and their associated timelines and key infrastructure requirements, staff report back to General Committee with a financing model in consultation with the other LSRA shareholders that contemplates:

 - a) Cost sharing between shareholders, including dilution of City's shares in the LSRA; and
 - b) Appropriate funding sources, including pursuing opportunities for financial support from other levels of Government."

11. On June 17, 2019, Council approved the sale of shares to the County, reducing the City's investment in the LSRA from 60% to 10%, as well as a corresponding reduction in the amount of the financial contribution with respect to the LSRA's operating, capital and borrowing charges, and a reduction in the number of seats held on LSRA's Board.
12. In July 2019, Oro-Medonte sold its 20% ownership stake in the LSRA to the County, resulting in the County having 90% ownership and the City having 10% ownership.

ANALYSIS

13. The base infrastructure required for the LSRA's planned expansion included the expansion of the runway to 7,000 feet in length and 150 feet in width. Further, a water/wastewater servicing solution will also be critical as a result of expected development and expanded services.
14. Based on the development timeline and infrastructure needs, the LSRA Board approved preliminary analysis and design work in August 2018, to assess the scope of work that would be required for the runway expansion and water/wastewater servicing. To date, the runway widening has been completed and the lengthening is currently in the planning stages.
15. The high-level estimated cost associated with infrastructure works in the shorter term is approximately \$40 million, which represents investments generally identified in phases 1 and 2 of the Strategic Plan in addition to water/wastewater servicing infrastructure for the northeast commercial area. The 10-year long term plan calls for a total investment of approximately \$51 million. This does not include future terminal infrastructure requirements.
16. The LSRA is not in a position to debt finance the expansions. As such the expansion can only be financed by its shareholders. The current Airport Agreement requires that the shareholders commit funds for operating and capital expenditures based on their proportionate shareholdings.
17. The current shareholding of the LSRA and resulting contribution amount to permit a \$40 million expansion would require an investment of \$4 million from the City this requirement increases to \$5.1 million over the next 10 years. From 2020 to 2023, Barrie's share of the capital costs has been approximately \$438,000.
18. Given the funding requirements, funding the LSRA capital costs would place additional strain on the City and is not recommended as a priority.
19. City staff are of the opinion that it would be prudent to eliminate any additional investment in the LSRA given the City's financial pressures for capital works within the community and current debt levels. As a result, staff are recommending that the City sell its remaining 10 shares, thereby eliminating any ownership in the LSRA and any future financial investments by the City.
20. Staff at the County have expressed a willingness to present to their Council the acquisition of the remaining 10 City shares. Should this recommendation be approved by both Councils, the City's share ownership would be decreased from 10% to 0% and the County would become the sole shareholder.
21. As a previous majority shareholder, the City historically provided management services to the LSRA under a separate agreement. The management services included, but were not limited to, the day to day management and operation of the airport, financial services, maintenance of waste disposal system and fleet, as well as economic development support services. After consultation with the County of Simcoe regarding the initial transition matters related to it assuming a 60% shareholder position in 2019, those management services were transferred to the County as majority shareholder. As such, the historic agreement is proposed to be formally terminated.

Financial Considerations

22. The LSRA is a municipal services corporation and as such its shares can only be sold to another municipal entity. Given the LSRA location, there is limited to no benefit for any other municipality(ies) than the current shareholder to acquire the City's shares. As such, the market value of the LSRA is significantly constrained.
23. At the time the County became a shareholder in 2014, it acquired its shares from the City at a value of \$65,000 per share or a total of \$1.3 million. The value per share was established after reviewing capital spending levels and the extent to which those figures could serve as a basis for establishing value.
24. In the three years prior to the County becoming a shareholder of the LSRA, the total investment in the LSRA was \$15.8 million, however only \$6.585 million was contributed by the City and Oro-Medonte, as both the Federal and Provincial governments had provided financial support for a runway expansion. 20% of the \$6.585 million municipal contribution was therefore determined to be \$1.3 million.
25. On January 1, 2020, when the City sold 50 of its 60 shares in the LSRA to the County, the share price arrived at was \$74,154 per share, utilizing an annual inflation factor of 2% since the previous valuation in 2014. The City received proceeds of \$3,707,724 for its 50 shares, with the proceeds being put into an Airport Infrastructure Reserve.
26. Utilizing the same rationale as utilized in the January 2020 share sale and applying inflationary factors to the 2020 value, the value of the shares on January 1, 2024 will be \$86,580 per share.
27. At \$86,580 per share, the City's proceeds on the sale of its 10 shares would be \$865,800. With contributions to the capital plan since 2020 in the amount of \$437,680, the value of the City's investment in the LSRA is \$130,348 per share or \$1,303,480 in total.
28. The City has paid \$345,000 of the \$437,680 in additional capital contribution, the difference of \$92,680 will be held back with the City receiving \$1.211M in net proceeds.
29. It is important to note that should a sale of the City's shares to the County be approved based on the \$130,348 per/share, the City would show a non-cash loss on its 2024 financial statements of approximately \$741,000. The 2014 financial statements recognized a loss of \$3.148 million and the 2020 financial statements recognized a loss of \$6.512 million.
30. This non-cash loss is an accounting entry and is due to the cost of the City's investment in the LSRA as reflected in the City's financial statements based on its accounting treatment as a portfolio investment under Public Sector Accounting Board standards.

Future Capital Contributions

31. As noted earlier in this report, the \$40 million investment into the LSRA generally represents phases 1 and 2 of the LSRA Strategy in addition to water/wastewater servicing infrastructure for the northeast commercial area. Phase 3 of the Strategy would require further capital investment, the 10-year forecast totals \$51 million. If the City does not sell its remaining 10% share in the LSRA now, at the time that it is called upon for the 10-year forecasted capital investment, the City could contribute its proportionate share or could investigate other approaches, such as a further sale of its shares.

Operating Contribution

32. The City currently contributes 10% of the LSRA net operating budget based on its proportionate shareholdings. In 2023, this represents approximately \$155,000.
33. An elimination of the City's shareholdings would result in the City's operating contribution to the LSRA being eliminated. The dollar impact would be a reduction in the City's annual operating budget of approximately \$160,000 in 2024.

Governance Considerations

34. Currently the Board of Directors of the LSRA is comprised of seven members. One of the members is appointed by the City and six are appointed by the County.
35. Should the City's shareholding be eliminated, it is reasonable to assume that the City would no longer have an appointee on the Board.

Other Considerations

36. As a previous majority shareholder, the City historically provided management services to the LSRA under a separate agreement. The management services included but were not limited to the day to day management and operation of the airport, financial services, maintenance of waste disposal system and fleet, as well as economic development support services. After consultation with the County of Simcoe regarding the initial transition matters related to it assuming a 60% shareholder position in 2019, the responsibility for those management services was transferred to the County as majority shareholder. It is recommended that the historic agreement be formally terminated effective January 1, 2024 to align with the proposed timing of the remaining share transfer.

ENVIRONMENTAL AND CLIMATE CHANGE IMPACT MATTERS

37. There are no environmental or climate change impact matters directly related to the recommendation.

ALTERNATIVES

38. The following alternatives are available for consideration by General Committee:

Alternative #1

General Committee could receive this report for information purposes only and take no further action.

Although this alternative is available, it is not recommended. The LSRA is planning \$51 million in capital spend on infrastructure over the next 10 years. Given the City's current financial condition and capital infrastructure needs, a \$5.1M contribution to the LSRA is not feasible.

Alternative #2

General Committee could recommend that the City sell less than 10 of its shares to the County.

This alternative is not recommended. The County shares the same goals as the City related to business development and employment in the Barrie area.

A shareholding of less than 10% does not materially change any aspects of governance control and does not eliminate operating and capital funding requirements.

Alternative #3

General Committee could recommend that the \$1.211 million proceeds from the sale of the City's 10 shares in the LSRA and the \$3.361 million balance in the Airport Infrastructure Reserve be transferred to a Reserve other than the County Capital Reserve, such as the Tax Rate Capital Reserve or Community Improvement Plan Reserve.

This alternative is not recommended as described in the financial section of this report below, the County Capital Reserve is forecasted to have an overcommitted balance of \$8.9 million by the end of 2024 and grow to \$30 million by the end of 2028.

FINANCIAL

38. A sale of the City's 10 shares in the LSRA would generate proceeds in the amount of approximately \$1.211 million. It is recommended that the proceeds from the sale plus the balance in the Airport Infrastructure Reserve for a total of \$4.572 million be transferred to the County Capital Reserve.
39. The County Capital Reserve supports the City's contributions towards the County of Simcoe's capital plan related to paramedic services, long-term care homes and social housing. The County recently updated its Long-Range Financial Plan which included significant increased capital requirements to address growth pressures. As well, Bill 23 removed the ability of municipalities to fund growth related capital costs for social housing through development charges. As a result, expected draws from this Reserve will average around \$14 million annually for the foreseeable future, well above the current tax rate funded contributions. Recent analysis shows that the Reserve is expected to have an overcommitted balance of \$8.9 million by the end of 2024 and increasing to \$30 million by 2028. Directing the proceeds of the Airport sale and the balance of the Airport Reserve towards this Reserve will be a first step in a longer-term strategy needed to fund this Reserve.
40. From an operating budget perspective, a reduction in the City's shareholdings will reduce the required funding from the City's operating budget by approximately \$160,000 - \$170,000 annually.

LINKAGE TO 2022-2026 STRATEGIC PLAN

41. The recommendations included in this Staff Report are related to the following goal contained in 2022-2026 Strategic Plan:
 - Responsible Governance
42. Significant investment in the LSRA infrastructure is required to allow for significant new business and employment opportunities at the LSRA. The sale of the City's shares will assist the City in maintaining its focus on core City services.