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**TO:** GENERAL COMMITTEE

**SUBJECT:** FINANCING THE LAKE SIMCOE REGIONAL AIRPORT EXPANSIONS THROUGH A SALE OF SHARES

**PREPARED BY AND KEY CONTACT:** C. MILLAR, TREASURER/DIRECTOR OF FINANCE, EXT. 5130 AND D. MCALPINE, GENERAL MANAGER OF COMMUNITY AND CORPORATE SERVICES, EXT. 4421

**SUBMITTED BY:** C. MILLAR, TREASURER/DIRECTOR OF FINANCE AND D. MCALPINE, GENERAL MANAGER OF COMMUNITY AND CORPORATE SERVICES

**GENERAL MANAGER APPROVAL:** D. MCALPINE, GENERAL MANAGER OF COMMUNITY AND CORPORATE SERVICES

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

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**RECOMMENDED MOTION**

1. That in order to finance the expansion of the Lake Simcoe Regional Airport (LSRA) associated with significant business development opportunities and subject to the approval of all shareholders in the LSRA, the Mayor and City Clerk be authorized to execute a Share Purchase Agreement and an amended LSRA Agreement as well as any related or ancillary documents that would reflect:
  - a) The County of Simcoe's purchase of LSRA shares from the City of Barrie, such that the City of Barrie's share ownership would be decreased from 60% to 10% and the County would become the majority shareholder;
  - b) A reduction in the City of Barrie's apportioned contribution for maintenance, operation, capital or borrowing charges to the LSRA from 60% to 10%;
  - c) The reduction in the number of Directors appointed to the Board of the LSRA by City of Barrie to reflect Barrie's reduced equity in the Airport;
  - d) Such other amendments as may be required should the Township of Oro-Medonte determine it wishes to sell a portion or all of its shares; 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, Director of Finance/Treasurer and Director of Legal Services.
2. That the lands currently held in trust for the parties to the LSRA Agreement by the City of Barrie be transferred to the LSRA Corporation and the Mayor and City Clerk be authorized to execute any required related or ancillary documents, to effect the land transfer.
3. That staff consult with the County of Simcoe and the LSRA regarding other transitional matters including the current Management Services Agreement between the City of Barrie and LSRA, and report back to General Committee with respect to any changes to the management services arrangement.
4. That the proceeds associated with the County's purchase of shares, with an approximate value of \$3.7M, be a funding source for the Airport's capital budget requests related to securing significant additional employment opportunities in 2019 and/or subsequent periods.

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5. That should this recommendation be supported, the 2019 Development Charges (DC) Background Study and any addendums as well as the related rates including in the draft Development Charges By-law be amended to reflect the proposed reduction in the City's proportionate share of any future capital contributions.

## **PURPOSE & BACKGROUND**

### Purpose

6. The purpose of this report is to recommend the sale of the majority of the City of Barrie's ownership interest in the Lake Simcoe Regional Airport Inc. (LSRA) to reduce the City's financial commitment for the necessary capital investments required to expand the Airport to serve future business and employment opportunities. The County of Simcoe has expressed an interest in acquiring a significant portion of Barrie's shares to support these business development opportunities.
7. The City would continue to play a role in the LSRA but no longer have a majority ownership interest, and as such, would no longer hold title to the lands in trust. The recommendation also includes a provision for staff to undertake discussions with the other shareholders related to the City's current provision of management services on behalf of the Airport. As significant capital investments are proposed to address two particular business prospects in the short term, it is recommended that the proceeds of the sale of any shares be utilized as a funding source for Barrie's future contributions to the Airport's capital budget requests.

### Background

8. In 2009, the City of Barrie and the Township of 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 of Barrie (80%) and the Township of Oro-Medonte (20%). An agreement was established between the two municipalities that set out the specific terms for the governance and management of the LSRA.
9. In 2014, the Airport Agreement was amended to reflect the County of Simcoe's purchase of shares from the City of Barrie. The County acquired 20% of the LSRA's shares from the City. As a result, the current share structure is as follows:
- City of Barrie – 60%
  - County of Simcoe – 20%
  - Township of Oro-Medonte – 20%
10. 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.”
11. 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 airport to enhance corporate aviation and MRO (Maintenance, Repair, Operations) business. Phases 2 and 3 were identified as a future state that would be demand-based and expand airport users to include commercial travel. The preliminary budget summary associated with all three phases was in the order of \$65.8M.

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12. As the Strategic Plan was being finalized and presented to Shareholders, the Lake Simcoe Regional Airport (LSRA) was approached with several investment inquiries in both MRO and manufacturing-type industries, seeking land to expand and/or relocate their businesses. Specifically, these opportunities required development of the Northeast Commercial Area of the airport, which is currently un-serviced, raw land.
  13. Two substantial airport users have short-listed the LSRA for the expansion/re-location of their business operations. The opportunities present significant, quality employment and investment that would benefit the entire area. Timing for the projects ranged from 12 to 24 months for decision and implementation.
  14. It is important to note, that in order to protect the commercial and strategic business interests of the leads, and in keeping with economic development standard operating practices, the identities of the leads remain confidential at this time.
  15. On May 13, 2019, City Council adopted resolution 19-A-90 concerning Investment Opportunities at the Lake Simcoe Regional Airport, 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."

## **ANALYSIS**

16. The base infrastructure required in order for the investment leads to locate at the LSRA includes the expansion of the runway to 7,000 feet in length and 150 feet in width. Further, given the projected employment of the users, a water/wastewater servicing solution would also be critical.
17. Based on the development timeline and infrastructure needs of these leads, 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.
18. The high level estimated cost associated with infrastructure works required to secure the business prospects 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.
19. The Airport is not in a position to debt finance the expansions. As such the expansion can only be financed by its shareholders. The current governance agreement requires that the shareholders commit funds for operating and capital expenditures based on their proportionate shareholdings.

20. The current shareholding of the LSRA and resulting contribution amount to permit a \$40M expansion, is as follows:

Shareholder	# of Shares/% Shareholder	Contribution Amount to Permit \$40 M Expansion of LSRA under current agreement
Barrie	60	\$ 24M
Simcoe	20	\$ 8M
Oro-Medonte	20	\$ 8M
<b>Total</b>	<b>100</b>	<b>\$ 40M</b>

21. Given its other funding priorities, the City of Barrie is not in a financial position to provide the \$24M investment in the LSRA that would be required in the next year to two years to allow these business development opportunities to be realized. In the longer term, there will also be investments required to support Phase 3 of the Strategic Plan.
22. It is staff's understanding that the Township of Oro-Medonte may also have an interest in reducing or selling all of its shares given the financial commitment required to expand the airport. As such, staff have consulted with the County of Simcoe staff with respect to the County's interest in acquiring a portion of the City's shares and its ability to fund the LSRA plan at a higher level.
23. City staff are of the opinion that it would be prudent to limit any additional investment in the airport over the next few years given the City of Barrie's financial pressures for capital works within the community and current debt levels. As a result, staff are recommending selling 50 shares and maintaining a 10 per cent ownership share, thereby limiting future financial investments from the City. .
24. Staff at the County of Simcoe have expressed a willingness to present to their Council the acquisition of 50 Barrie shares. They have also indicated that the County is in a position to contribute at this increased proportionate level to the LSRA expansion. Should this recommendation be approved by both Councils, the City of Barrie's share ownership would be decreased from 60% to 10% and the County would become the majority shareholder.

#### Financial Considerations

25. At the time the County became a shareholder in 2014, it acquired its shares from Barrie at a value of \$65,000 per share or a total of \$1.3M. 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.
26. In the three years prior to the County joining the airport, the total investment in the airport was \$15.8M however, only \$6.585M was contributed by Barrie and Oro-Medonte as both the Federal and Provincial governments had provided financial support for a runway expansion. 20% of the \$6.585 M municipal contribution was therefore determined to be \$1.3M.

27. The following charts identify the calculations used in 2014 for the valuation of the County of Simcoe share

**Airport Runway Extension (ISF) Project Spending/Funding**

	<b>Total</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Federal Contribution	<b>\$4,596,000</b>	\$276,331	\$4,239,924	\$79,745
Provincial Contribution	<b>4,596,000</b>	276,331	4,239,924	79,745
Total Municipal Contribution	<b>6,584,707</b>	1,950,944	4,497,495	136,268
<b>Grand Total</b>	<b>\$15,776,707</b>	\$2,503,606	\$12,977,343	\$295,758

**Share Value**

Oro-Medonte (20%)	\$	1,316,941
County of Simcoe (20%)	\$	1,316,941
City of Barrie (60%)	\$	3,950,824
<b>Total Municipal Contribution</b>	<b>\$</b>	<b>6,584,707</b>

28. The assets have not materially declined in value since their installation. Staff believe it is reasonable to utilize this historical value of \$65.85K per share plus a 2% increase annually to represent inflation for any share valuation at this time. The application of inflation to the 2014 share price would represent a value of approximately \$74.1K per share. At \$74.1K per share, the City would receive proceeds of \$3,707,723.50 for its 50 shares.
29. It is important to note that should a sale of the City's shares to the County be approved on the basis of the \$74.1K/share, the City would show a non-cash loss on its future Financial Statements of approximately \$6.6M
30. This non-cash loss is due to the valuation of the LSRA based on its accumulated surplus as at December 31, 2018 of \$20,668,864 (source: City of Barrie 2018 Consolidated Financial Statements). This valuation represents the book value of the airports assets over its liabilities.
31. However, the airport 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 shareholders to acquire Barrie's shares. As such, the market value of the airport is significantly constrained.
32. This constraint is why the shares in 2014 were assessed using the municipal investments over the previous three years as the basis for the evaluation. Staff believe that this approach is suitable again at this time, subject to an increase in this historical valuation to reflect inflation.

Future capital contributions

33. Should the sale of 50 of the City of Barrie shares to the County be approved by all of the parties, the resulting contribution amounts for each of the parties to permit a \$40M expansion, would be as follows:

<b>Shareholder</b>	<b># of Shares/% Shareholder</b>	<b>Contribution Amount to Permit \$40 M Expansion of LSRA with County purchase of 50 Barrie shares</b>
Barrie	10	\$ 4M
Simcoe	70	\$ 28M
Oro-Medonte*	20	\$ 8M
<b>Total</b>	<b>100</b>	<b>\$ 40M</b>

- \* As noted earlier, staff understand that the Township of Oro-Medonte may also have an interest in reducing or selling all of its shares to the County. This would reduce or eliminate Oro-Medonte's shares and contribution and correspondingly increase the financial commitment from the County. It would not have any impact on the contribution amount from the City of Barrie.

34. Given the anticipation that an investment of \$4M would be required in the next year to two years to secure significant additional employment opportunities, it is recommended that the proceeds associated with the County's purchase of shares, be a funding source for the Airport's capital budget requests. Applying the proceeds of the sale would reduce the capital investment required by the municipality to approximately \$300K to support a \$40M expansion of the airport.
35. As noted earlier in this report, the \$40M 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 investments, however, these are not anticipated to occur for a number of years. At that time, as a 10% shareholder in the airport, the City could contribute its proportionate share to an investment or could investigate other approaches, such as a further sale of its shares.

Operating Contribution

36. Barrie currently contributes 60% of the LSRA net operating budget based on its proportionate shareholdings. In 2019, this represents approximately \$438K.
37. A reduction in the City of Barrie's shareholdings to 10% would result in Barrie's apportioned contribution for maintenance, operations, and borrowing charges to the LSRA being reduced from 60% to 10%. The dollar impact would be a reduction in the City's annual operating budget of approximately \$365K towards the airport..

Governance Considerations

38. Currently the Board of Directors of the LSRA is comprised of nine members. Five of the members are appointed by Barrie, two by Oro-Medonte and two by the County of Simcoe.
39. Should the shareholding apportionment change, it is reasonable to assume that the number of Directors appointed by each shareholder would be altered accordingly. It is also possible for the size of the Board itself to change.

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40. The number of Directors to be appointed by Barrie would be reduced to reflect Barrie's reduced equity in the Airport. While the size of a new Board of Directors has not been finalized at this time, it is accepted that Barrie would appoint at least one Director to the Board.
41. Currently, each shareholding party's respective Council is required to approve (or has the ability to veto) the following matters:
- Each annual budget
  - Each annual business plan;
  - Any admission of a new shareholder(s)
  - The appointment of each Party's respective director(s) to the Board; and
  - Any amendment to the Shareholders Agreement
42. Staff would seek to ensure veto rights for Barrie (and any other Shareholder) for the following:
- Each annual budget/business plan
  - Long term strategic plans;
  - Any sale of airport lands; and
  - Any amendment to the Shareholders Agreement
43. This provision regarding approval of each party's directors has always been a cumbersome and ineffective term, and as such is not recommended to continue in any new agreement.

Other considerations

44. Currently, as the majority shareholder Barrie holds title to the Airport Lands in trust for the Parties to the Agreement. As the LSRA is a corporate entity, it is able to hold title to lands in its name and the lands are not required to be held in trust.
45. As the City would no longer be a majority shareholder, it is recommended that the lands be transferred to the LSRA. The County has indicated that it would be willing to assume land transfer tax costs as it would become the majority shareholder and these costs have not been included in any budgets.
46. The City currently provides management services to the LSRA under a separate agreement. The management services include but are 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.
47. Staff are proposing that it would consult with the County of Simcoe and the LSRA regarding other transitional matters including the current Management Services Agreement. Staff would report back to General Committee with respect to any proposed changes.
48. Economic development opportunities that exist in for the aerospace sector through the LSRA have been strengthened through the Southern Ontario Airport Network (SOAN) and the newly created Southern Ontario Mayor's Aerospace Council (SOMAC). These opportunities present economic spin-off potential for the City of Barrie. As such, connectivity and collaboration on business opportunities between the LSRA, the County of Simcoe and the City of Barrie would continue throughout the transition and beyond.



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## **ENVIRONMENTAL MATTERS**

49. There are no environmental matters directly related to the recommendation.

## **ALTERNATIVES**

50. 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 has two business opportunities that would create significant employment opportunities for the entire area. These opportunities can't be realized without an approximately \$40M investment into the LSRA in the next one to two years. Given, the City's current financial condition and capital infrastructure needs, a \$24M contribution to the LSRA is not feasible.

### **Alternative #2**

General Committee could recommend that the City sell less than 50 of its shares to the County, to maintain a higher level of control of the airport. This alternative is not recommended. The County shares the same goals as the City related to business development and employment in the Barrie area. Barrie would only be able to maintain majority ownership, if it sold only 9 shares. At a 51% ownership, it would need to contribute over \$20M, which is not financially viable.

A shareholding of 20 or 30% does not materially change any aspects of governance control and requires investment levels that staff do not believe are viable in the short term.

### **Alternative #3**

General Committee could recommend that the City transfer title to the airport lands to the County to be held in trust for the shareholders.

This alternative is not recommended. The LSRA as a corporate entity has the ability to hold title to the lands. Any transfer of the land will trigger land transfer tax and as a result, there is no financial benefit to transferring the lands to the County.

### **Alternative #4**

General Committee could recommend that staff report back with the final Share Purchase and amended LSRA agreements for approval rather than authorizing the Mayor and City Clerk to execute an agreement on the basis of the terms identified and any other matters to the satisfaction of the Chief Administrative Officer, Director of Finance/Treasurer, and Director of Legal Services.

This alternative is available. However, if the business opportunities materialize quickly, the City and LSRA may not be in a position to react quickly enough with the investments required to secure the business leads.



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**FINANCIAL**

51. As noted earlier in this report, a sale of 50 Barrie shares in the LSRA would generate proceeds in the amount of approximately \$3.7M. As a 10% shareholder, the City would be required to invest \$4M to the infrastructure works estimated at \$40M as necessary to support the current business opportunities. As such, it is recommended that the proceeds from the sale be set aside for the LSRA airport expansion. The remaining \$300K would be funded from the tax capital reserve.
52. From an operating budget perspective, a reduction in Barrie's shareholdings will reduce the required funding from the City's operating budget towards the airport by approximately \$365K annually.

**LINKAGE TO 2018-2022 STRATEGIC PLAN**

53. The recommendations included in this Staff Report are related to the following goal contained in 2018-2022 Strategic Plan:
  - ✓ Growing our economy
54. The expansion of the LSRA infrastructure is required to allow for significant new business and employment opportunities to locate at the airport. The sale of the majority of the City of Barrie's shares will allow for the necessary expansion to proceed with a partner that shares the same economic development goals as the City.