



NORTHERN
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Is the North Being Grounded?

**The Case for Intergovernmental
Investment in Northern Ontario's Airports**

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874 Tungsten St.
Thunder Bay, Ontario P7B 6T6

Telephone: (807) 343-8956
E-mail: northernpolicy@northernpolicy.ca
Website: www.northernpolicy.ca

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About Northern Policy Institute

Northern Policy Institute is Northern Ontario's independent think tank. We perform research, collect and disseminate evidence, and identify policy opportunities to support the growth of sustainable Northern Communities. Our operations are located in Thunder Bay and Sudbury. We seek to enhance Northern Ontario's capacity to take the lead position on socio-economic policy that impacts Northern Ontario, Ontario, and Canada as a whole.

Vision

A growing, sustainable, and self-sufficient Northern Ontario. One with the ability to not only identify opportunities but to pursue them, either on its own or through intelligent partnerships. A Northern Ontario that contributes both to its own success and to the success of others.

Mission

Northern Policy Institute is an independent policy institute. We exist for the purposes of:

- The development and promotion of proactive, evidence based and purpose driven policy options that deepen understanding about the unique challenges of Northern Ontario and ensure the sustainable development and long-term economic prosperity of Northern Ontario;
- The research and analysis of:
 - » Existing and emerging policies relevant to Northern Ontario;
 - » Economic, technological and social trends which affect Northern Ontario;
- The formulation and advocacy of policies that benefit all Northern Ontario communities that include Aboriginal, Francophone, remote/rural communities, and urban centres; and,
- Other complementary purposes not inconsistent with these objectives.

Values

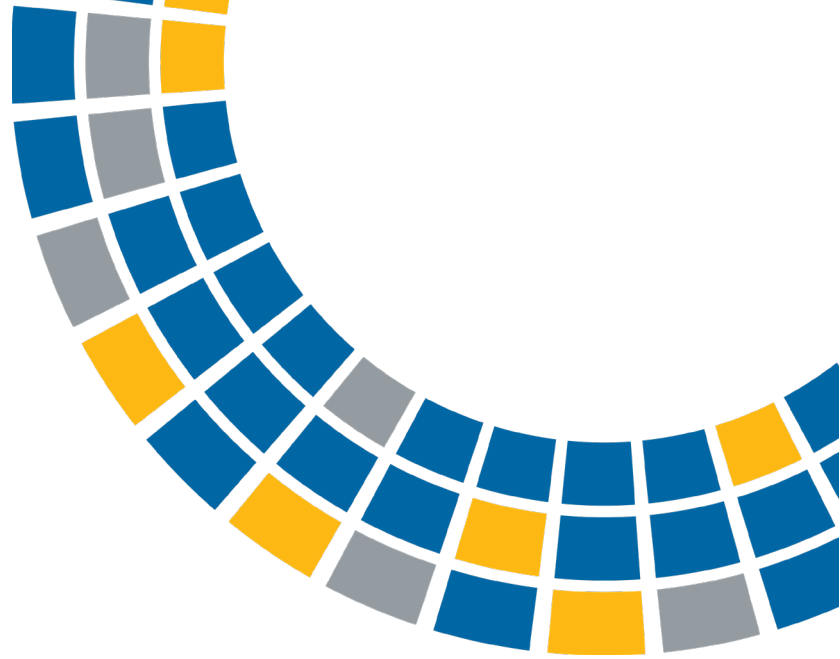
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Relevance: Northern Policy Institute will support practical and applied research on current or emerging issues and implications relevant to Northern Ontario now and in the future in keeping with the themes and objectives of the Growth Plan for Northern Ontario, 2011;

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Coordination: Northern Policy Institute will complement the existing research efforts of Northern Ontario's post-secondary institutions and non government organizations and explore opportunities for coordinated efforts that contribute to the mandate of Northern Policy Institute; and

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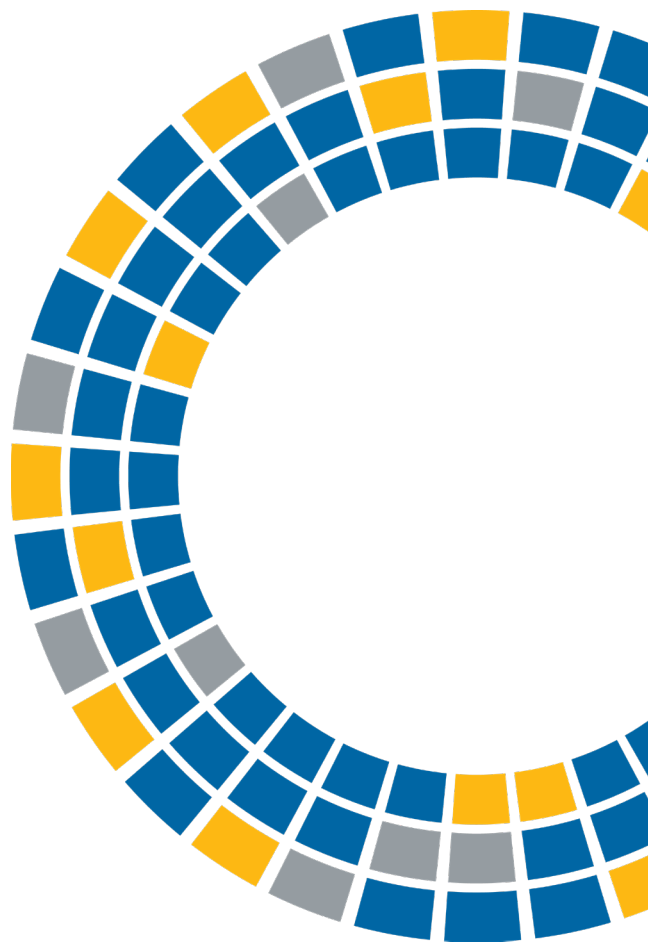


About the Author

Erin Estok



Erin Estok is a former summer policy intern with Northern Policy Institute. Erin has past policy experience working federally as a Policy Analyst for both Environment Canada and Aboriginal Affairs and Northern Development Canada in Gatineau, Quebec. Erin has also worked as a Stakeholder Relations Advisor for Ontario's public safety regulator, Technical Standards and Safety Authority (TSSA), a delegated administrative authority overseen by the Ministry of Government and Consumer Services, in Toronto, Ontario. She holds a BAH from Queen's University in Political Studies, and a Master of Arts in Political Science from Wilfrid Laurier University.



Purpose

The purpose of this briefing note is to examine a new airport funding model to ensure that remote communities remain viable and economically competitive. Using the 'Sioux Lookout model,' the briefing note demonstrates how airports in the North would benefit from intergovernmental investment partnerships to enhance airport infrastructure.



Introduction

In July 2015, the federal and provincial government announced that the Sioux Lookout Airport terminal building will be doubling in size as part of a \$12.6 million joint federal/provincial/municipal investment partnership under the Small Communities Fund (Ministry of Economic Development, Employment and Infrastructure, 2015). A large and strategic investment in air infrastructure such as the one in Sioux Lookout is crucial for many Northern Ontario communities and the "Sioux Lookout model" should be emulated for other airports in Northern Ontario.

Airports play a critical role in the economic competitiveness of a peripheral region like Northern Ontario. Airports have the ability to "bolster a city's competitiveness, create jobs and sustain a high quality of life (Addie, 2013)." Non-stop flight linkages often factor into how a city ranks globally in terms of its overall desirability for investment attraction. Efficient and reliable transportation connections are essential for corporations to be able to effectively apply advanced supply chain management techniques and avoid revenue loss (Davis, 2012).

In order to harness the maximum economic benefit from resource opportunities such as the proposed Ring of Fire in Northern Ontario, multi-modal transportation links must be planned in advance. The efficient movement of people and goods is critical for the mining and forest industries, with air transportation serving as a key link in remote areas by providing "access to regional, domestic and international markets, while on the other hand supply the community with timely and competitively priced goods and services (Davis, 2012)." Air access is often one of the main criteria that is used by industry leaders when evaluating whether or not to locate a new project in a given community. The catalytic effects of growth in air transport spills over to other non-primary industries (such as tourism and retail), and is estimated to have an economic footprint of \$35 million in GDP (Gill and Raynor, 2013).

In addition to the clear economic benefit that an efficient airport can provide to a community, there are also many public service benefits, particularly in rural and remote areas. Many communities in Northern Ontario are remote, fly-in only First Nations communities, and improved air service out of Northern "hub" airports could help to improve the quality of life, as well as improve access to goods and services.

So what will it take to make Northern hub airports more efficient? In two words: infrastructure investment.

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The Devolution of Airports in the North

In the mid- 1990s, many airport facilities were deemed to be 'under-utilized economic sinkholes' and the federal government handed operation and maintenance responsibilities to local airport authorities (Addie, 2013). Under the 1994 National Airport Policy (NAP), all airports in national, provincial, and territorial capitals, as well as those with more than 200,000 passengers per year, were designated to be National Airport System (NAS) airports (Canadian Airports Council, 2015).

By 2003, all 25 NAS designated airports (including the Thunder Bay International Airport) had been successfully transferred from federal to local responsibility. This effectively eliminated the 'cross subsidization' principle that had been the modus operandi for airports prior to the early 1990s. Transport Canada also devolved local/ regional and smaller airports that were non-NAS designated, in many instances, to the local municipalities. Most airports in Northern Ontario fell into this second round of 'smaller airport' devolution including: Sudbury, Dryden, Timmins, and Kenora (Canadian Airports Council, 2015). Transport Canada retained control of the funding, operation, and maintenance of 13 airports in designated remote locations (Transport Canada, 2014).

There is some ambiguity as to whether any Ontario airport can be classified as remote. For example, on Transport Canada's Remote Airport Fact Sheet List, Moosonee, Ontario is listed as a remote airport, however, more recent Transport Canada maps do not include any locations in Ontario classified as remote (Transport Canada, 2010). The federal government definition of remoteness is not entirely clear, however, a 'remote' location designation signifies continued Transport Canada ownership, operation, and funding of an airport.

The devolution of airports can be an effective new public management strategy, however; the one-size-fits-all solution is not always universal success. Airports located in rural and remote areas have lost out in the 'devolution deal'. As Mark Davis noted in 2012:

"despite the administrative benefits of autonomy, divestiture was not an automatic solution for survival in areas of decreasing population and low economic activity. Infrastructure investments play an important role in the financial sustainability of remote airports (Davis, 2012)."

Many local airport authorities located in small or peripheral communities throughout Canada have become increasingly concerned with financial viability, and airports in Northern Ontario are no exception.

Stakeholders in the aviation industry state that smaller airports struggle with insufficient revenues to cover operating expenses, have limited sources for funding capital projects, and suffer from reduced revenues as a result of traffic diversions from increased fees and taxes on aviation (Sypher-Mueller, 2002).

Over the past 20 years, small and remote non-Transport Canada owned airports continue to face challenges in obtaining Airports Capital Assurance Program funding, as the current program does not fully address the capital infrastructure needs. The monetary value of ACAP funding that is available for infrastructure projects has decreased significantly since it was first created in 1994 under the National Airports Policy, making the 'pot' that ACAP- eligible airports compete for smaller on an annual basis. The funding justification process is also complicated and many small airports struggle to complete ACAP funding applications (Gill and Raynor, 2013).

While some provinces have small 'community airport' programs that target funding toward non-ACAP eligible programs, the total dollar amount of provincial programs is minimal. Relying on provincial funding does not offer a cohesive, national approach to airport safety, an issue that falls squarely within federal jurisdiction. The current ACAP eligibility criteria also excludes funding for upgrades such as paving, which will be required (and extremely cost-prohibitive) for northern airports if they are to implement Transport Canada's proposed Runway End Safety Area (RESA) recommendations (Federation of Canadian Municipalities, 2015). Several recent reports recommend a permanent federal airport infrastructure renewal program for infrastructure at small and medium airports in the interest of safety and security (Gill and Raynor, 2013).

Revenues generated from the industry that are already earmarked for the federal government, such as the federal aviation fuel tax, or airport ground rent collected from leases, could be a source of funding to support a permanent capital infrastructure program. A recent report by the Conference Board of Canada recommends revising the airport rent formula to shift airport rents away from a rising marginal share or revenue to a flat share of revenue, or even a fixed fee (Gill, 2012). This has not been met with a warm reception by the Government of Canada. The industry contributes over \$12 billion to federal and provincial treasuries, including over \$7 billion in taxes. Federal aviation fuel taxes are in excess of \$100 million per annum, though all of the federal revenue collected from the aviation industry is captured in general gas tax reserves (Gill and Raynor, 2013).

Another key component to the 1990s 'devolution plan' was how it envisioned a role for the federal government in generating private investment opportunities. The plan was to have the federal government fund marketing and promotion activities at peripheral airports to generate regional economic development via tourism. However, it is arguable that Transport Canada has not engaged in targeted funding to remote sites with the intent of attracting private investment, as originally stated in the devolution plan. In addition, Transport Canada has not been a major facilitator in creating marketing partnerships for remote airports, as the marketing function in the post-divestiture era has been the responsibility of either local airport authorities or provincial/municipal governments (Davis, 2012).

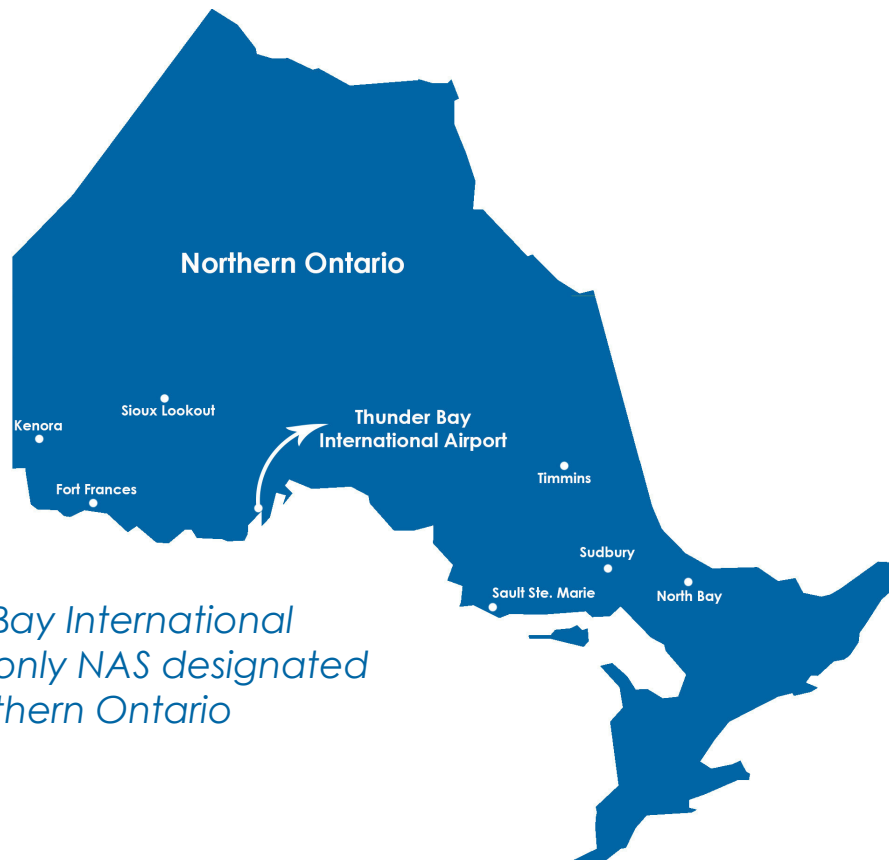
The 2014 provincial budget announced that aviation fuel tax in Ontario will increase to 6.7 cents-per-litre by April 1, 2017, making it the highest in the country (Ministry of Finance, 2014). The revenue generated from the tax increase is intended to support infrastructure and transit projects across the province.

In Southern Ontario, the provincial government has been actively promoting an integrated program of regional land-use, environmental, and transportation policies since 2003 through the regional transportation agency, Metrolinx. Metrolinx has a 25-year, \$50 billion plan to guide the development of transportation

infrastructure and concentrate intensified regional growth around a network of 'mobility hubs' (Addie, 2013).

A similar large scale multi-modal transportation investment plan has not been developed for Northern Ontario. Though the economies of scale are markedly different in Northern Ontario, the need for air infrastructure investment remains just as critical as the transportation issues faced by the Greater Toronto and Hamilton Area, though for very different reasons. Surface transportation options (such as rail or road) are less viable in thinly populated northern areas, and many communities in Northern Ontario rely only on winter ice roads as the only means for the delivery of goods and services (Halpern and Pagliari, 2007).

The reality in Northern Ontario is almost as harsh as the climate: the delivery of core government services depends on reliable air transportation. While broadband infrastructure investments (often made in tripartite public-private partnership in Northwestern Ontario) has created huge strides for service delivery and allowed for alternative e-service delivery models, there are still services that require in-person delivery (Ministry of Mines and Northern Development, 2010). The region remains highly dependent on air transport and cannot rely exclusively on broadband infrastructure in the years to come.



The Thunder Bay International Airport is the only NAS designated airport in Northern Ontario



*Intergovernmental collaboration on infrastructure projects, such as airports, will help get the **North** off the ground and reach new heights*

Conclusion

Investment funding for airports often relies on the analysis of passenger traffic data, however; this data should not be the sole tool used in the investment cost/benefit calculations. Relying strictly on passenger traffic data limits the understanding of economic impacts and the analysis should be paired with further qualitative data. Looking at passenger traffic metrics exclusively could lead to overlooking 'what the passenger flows are actually grounded in, and are structured by in a geospatial sense,' (Addie, 2013). A quantitative and qualitative approach should be used when determining relative connectivity of a given airport in a rural or remote area.

From a national perspective, export oriented "resource economy" airports experience greater catalytic effects from infrastructure investment than more diversified airport in an urban setting. Therefore, the benefit of infrastructure investment should not be discounted simply because passenger traffic metrics are below a conventionally accepted viability figure, usually around 200,000 passengers per annum (Halpern and Pagliari, 2007).

According to a 2010 estimate, the passenger traffic at Sioux Lookout Airport is over 100,000 passengers each year, but it is primarily used as the hub for the provision of core health services such as air ambulances charters, demonstrating the need for proper capital infrastructure to be in place that is independent of a strict air passenger data analysis (Sioux Lookout Municipal Airport, 2010). The qualitative perspective yields the information that the quantitative analysis will not. In order to ensure that all residents of Ontario receive equal access to core government services, investment in airports in Northern communities like Sioux Lookout are vital moving forward.

The "Sioux Lookout" model is an example of a positive infrastructure investment partnership in Northern Ontario and should be emulated in other communities. The reasons for strategic investments of this nature in the region are numerous and include the efficient movement of people and goods for natural resources projects, as well as the provision of core public services to residents in the North. Injecting money and resources into other smaller airports in Northern Ontario is an investment that will facilitate further growth in the region. Intergovernmental collaboration on infrastructure projects, such as airports, will help get the North off the ground and reach new heights.

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Who We Are

Internally, Northern Policy Institute seeks to be as “lean” as possible with much of the work contracted out to experts in the fields under consideration. This approach avoids the risks associated with large bureaucratic organizations. It also allows Northern Policy Institute to flexibly respond across a wide range of issues while also building up in house and regional expertise by matching bright young minds on temporary placements and project specific work with talented experts who can supply guidance and coaching.

Some of the key players in this model, and their roles, are as follows:

Board: The Board of Directors sets strategic direction for Northern Policy Institute. Directors serve on operational committees dealing with finance, fundraising and governance, and collectively the Board holds the CEO accountable for achieving our Strategic Plan goals. The Board's principal responsibility is to protect and promote the interests, reputation, and stature of Northern Policy Institute.

President & CEO: Recommends strategic direction, develops plans and processes, and secures and allocates resources to achieve it.

Advisory Council: A group of committed individuals interested in supporting, but not directing, the work of Northern Policy Institute. Leaders in their fields, they provide advice on potential researchers or points of contact in the wider community.

Research Advisory Board: A group of academic researchers who provide guidance and input on potential research directions, potential authors, and draft studies and commentaries. They are Northern Policy Institute's formal link to the academic community.

Peer Reviewers: Ensure specific papers are factual, relevant and publishable.

Authors and Research Fellows: Provide independent expertise on specific policy areas as and when needed.

Standing engagement tools (general public, government stakeholders, community stakeholders): Ensure Northern Policy Institute remains responsive to the community and reflects THEIR priorities and concerns in project selection.

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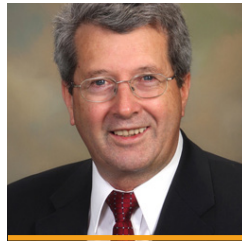
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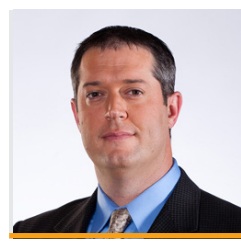
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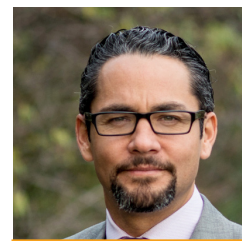
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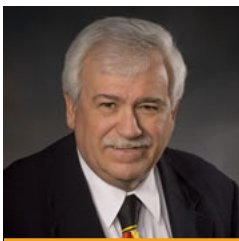
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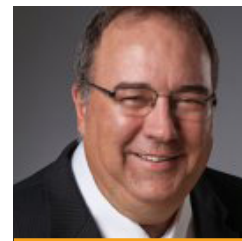
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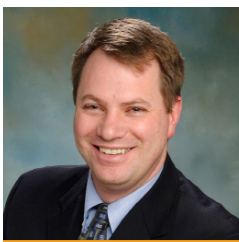


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