



REGIONAL MUNICIPALITY
OF **WOOD BUFFALO**

Special Council Meeting

Jubilee Centre Council Chamber
9909 Franklin Avenue, Fort McMurray

Tuesday, November 18, 2008
6:00 p.m.

Agenda

Call to Order

Opening Prayer

Reports

1. Fort McMurray Airport Expansion Project

Adjournment

Subject: Fort McMurray Airport Expansion**APPROVALS:**

Chief Administrative Officer

Administrative Recommendation(s):

1. That the Fort McMurray Airport Commission be authorized to incur up to \$110M in total allowable debt funding for the revised Airport Expansion project plan consisting of a new Air Terminal Building on the south side of the airport property with expanded parking, without a second runway, under the following conditions:
 - A. That this funding represents an absolute ceiling on debt funding for the project;
 - B. That the project funding cover all costs of the expansion, including those associated with municipal infrastructure for offsite improvements, roads and utilities additions, changes and upgrades required by the Municipality or Province;
 - C. That Administration work with the Commission to apply to the Provincial Government to acquire adjacent lands required for the expansion; and
 - D. That Administration and the Commission form an oversight working committee, funded by the Commission, to monitor, provide advice and report on project management standards and practices for the project, reporting its results to Council and to the Board of the Commission regularly.
2. That Resolution #07-332 passed by Council on August 28, 2007 be rescinded.

Summary:

The current Fort McMurray airport facility has significantly exceeded its design capacity for several years. In 2007, the Airport Commission engaged expert consultants to provide design and cost analysis, which resulted in a recommended expansion of the airport through a new facility built on the South Side of the existing property. In 2007, the Commission submitted a request to Council for approval of securing funding for a \$100M expansion project, which Council approved on August 28, 2007. In 2008, Administration engaged consultants to conduct independent due diligence to further evaluate the feasibility and risks of the proposed expansion, and to assess alternatives. The project was suspended by the Commission on July 4, 2008, as the two groups of consultants explored different design choices, demand assumptions, scenarios and cost estimates.

As a result of the analysis in this period since the original funding request was approved, the airport plans have now been revised from the original submission, with revised designs and updated cost estimates, but with total costs still projected to be less than \$100M. After an evaluation of the risks and financial feasibility, using information from both groups of consultants, Administration recommends that it would be prudent at this time to approve an additional contingency of \$10M to allow a provision for cost escalation and unanticipated costs which may arise as more detailed design work is conducted and construction bids are tendered, while staying within the limits of financial feasibility for the project.

The additional conditions included in this recommendation are for what Administration believes are essential requirements for the project to be a success, and to provide a framework to ensure proper cost control over the project.

As planned, the project will cover all costs of municipal infrastructure for the project, and the funding of the project through bonds will not require municipal funds nor impact the Municipality's finances. The ability to resolve the other issues that Administration has been dealing with, such as the Airport Hotel and the requirement for fire services at the airport, are separate from the expansion project itself, and are not compromised by this recommendation.

Expansion will require a formal long term lease of the airport property and buildings for the Commission to be able to proceed with financing. Administration will continue to work towards implementing a mutually acceptable operating agreement which meets the needs of the Commission and of the Municipality. Administration will also be exploring the option of converting the Airport Commission to an Airport Authority as an alternative governance model, and will report the results of this analysis to Council and to the Commission.

Background (draft only– some dates and details to be confirmed/ developed):

2006:

- Demand is so high and capacity so limited that Council approved the creation of additional regional aerodromes for oilsands companies (some already in place). Several are constructed during 2006 and 2007, and some traffic is routed directly to these construction site air fields.

2007:

- The Airport Commission determined that the existing airport had significantly exceeded its effective design capacity and that an expansion was necessary. It issued tenders for design and construction bids: EllisDon and BDY Architects were selected; a conceptual design plan for south terminal with a second runway was developed and approved by the Commission.
- The Commission submitted a request to Council for approval of \$100M in debt financing for the project, which Council approved.

2008:

- Administration engaged Conestoga Rovers and Associates and LPS Avia as expert consultants to review the Airport expansion plans and provide an independent feasibility and risk assessment of the plans, and to consider alternative choices.
- Administration's consultants differed in their approaches and assumptions from the Commission's advisors in several areas, most notably the ability to expand the existing airport facility instead of constructing a new one on the south side of the tarmac, the need for a second runway, and the most appropriate passenger demand projections to be used to assess the financial feasibility of the project.
- During discussions it appeared that the actual costs of the project as designed would exceed the Commission's original estimate and request of \$100M: The Commission's consultants have since revised the airport plan, agreeing to defer development of a second runway, keeping the project's costs within \$100M.

- Administration’s consultants identified alternative choices for expanding the existing site, but their financial analysis concluded that a new terminal building on the South Side of the tarmac costing up to \$110M was still financially feasible, even using significantly lower demand forecasts than had been used to support the original plan.
- Administration reviewed the analysis and conducted some sensitivity analysis using the tools developed by the various expert consultants involved. The analysis has resulted in agreement between Administration and both sets of consultants on a base case financial model for the Airport Expansion which suggests that while there are some risks, the expansion appears financially feasible as planned, and the design is scalable to allow for affordable expansion should future demand increase beyond the levels anticipated in the base case.

Administration and the Commission have been involved in several areas of discussion related to the Airport Commission regarding an Airport Hotel, Fire Services, infrastructure, a lease for the airport lands and an operating agreement. Nothing in these recommendations for approval of airport expansion funding compromises Administration’s ability to proceed with these matters in a manner that protects the needs, interests and rights of the Municipality.

Bond funding for the project has not been approved, and the Commission’s financial advisors, RBC, have not confirmed that funding will in fact be feasible without further analysis. We understand that bond investors and underwriting agencies will require their own thorough due diligence of the project before approving issuance of the required bond funding. This analysis should provide a further independent view of the assumptions behind the project and will constitute an additional check and balance to ensure the project is well conceived and financially feasible before significant investments are made and risks are incurred. Administration is continuing discussions with RBC, as the provider of the Commission’s operating funding and advisor on bond funding, to ensure that the funding requirements are understood and addressed, and that the Municipality is not at financial risk in the project.

Alternatives:

The first alternative is to reconfirm the original approval for \$100M as the ceiling in debt funding. However, given the delays since the original approval, the recent inflationary experience for construction costs in the Municipality and the length of the project, it is considered highly likely that in this alternative the Commission would have to come back to Council for additional funding approval after the project has commenced. Doing so would result in additional, unnecessary administrative and management costs for the Commission and for Administration, and may cause further delays in the project.

Budget/Financial Implications:

No direct implications – all financing is to be acquired by the Airport Commission as an arm’s length corporation. At the time of writing there are no identified requirements for the Municipality to provide any assurances or guarantees for the funding, only to formalize that the airport lands are under the control of the Commission through a long term lease.

Rationale for Recommendation(s):

The need for an expansion is not contested. The airport is an essential resource that directly impacts the success of the Municipality: It is the first point of contact for many newcomers to the municipality, and has significantly exceeded its design capacity to the point where it may be a barrier to progress, investment and growth. Expansion to a more modern, more functional airport will make it easier and more comfortable for airlines and travelers to access and transit through the Airport to conduct business, and for residents to travel by air for business and personal travel. An airport expansion fee estimated at up to \$20 per person does not appear to be a barrier to demand for travel in the Airport.

The Commission's project budget already has a contingency for unforeseen costs and cost increases, but it is a large project that will occur over several years, and the potential for inflationary cost increases which cannot be managed is real. The increase in funding provides a realistic margin that should help avoid the alternative of having the Commission approach Council for additional funds in the future. Administration's recommendation is worded in such a way as to emphasize that should costs exceed even the increased ceiling of \$110M, then Council's direction to the Commission is to find ways of cutting costs in the design rather than, or before, seeking approval for additional funding for cost overruns.