

Victoria Airport Authority Annual Public General Meeting

Summary of Proceedings

Monday, July 6, 2020

1:30 – 2:15 PM

Live Streamed via GoToWebinar

Attendance:

VAA Board Members

Gordon Safarik, Board Chair
Marilyn Loveless, Board Vice-Chair
Brenda Nunns Shoemaker, Board Secretary
Cathie Ounsted, Chair – Audit and Finance Committee
Rod Dewar, Chair – Planning and Development Committee
Eric Donald, Chair – Human Resources Committee
Carol Brown
Wendy Everson
Paul Gerrard
Allan Haynes
Frank Leonard
Charles Lovallo
Wendy Zink

VAA Management

Geoff Dickson, President and CEO
Randy Bogle, Chief Financial Officer
Ken Gallant, Vice-President – Operations
Brant Arnold-Smith, Director – Security and Terminal Relations
Scott Cunningham, Director – Facilities
Rod Hunchak, Director – Business Development and Community Relations
Lars Olsson, Director – Airside Operations and Safety
Michelle Cooper, Manager – Human Resources
Mike Garraway, Manager – Safety and Emergency Services
Adrian Nyland, Manager – Facilities and IT

Recording Secretary

Melinda Orłowski – Executive Assistant and Corporate Secretary

Public In Attendance: 50

1. Call to Order

The meeting was called to order by the meeting moderator, Adrian Nyland. Melinda Orłowski acted as Recording Secretary.

2. Welcome To Attendees

The meeting moderator welcomed everyone to the Victoria Airport Authority's (VAA's) Annual Public General Meeting (APGM). Due to the COVID-19 pandemic and the requirement for social distancing, this year's proceedings were live-streamed via the GoToWebinar platform. The moderator provided an overview of the meeting agenda and guidance around the process for asking questions of the leadership team.

3. Report from the Chair of the Board of Directors

Board Chair Gordon Safarik provided an update from the perspective of the VAA Board of Directors. The Chair noted that this year's meeting was a departure from the usual format and asked for everyone's patience and understanding as VAA navigated the new technology.

2020 marks the Chair's second year serving in the position. These are interesting times and normally at the APGM there is a lot of positive news to share about the past year's achievements. That all changed in March when the world essentially shut down to prevent the spread of the coronavirus. The aviation and tourism sectors have been severely impacted by the COVID-19 pandemic. As VAA navigates its way through the crisis, rest assured that VAA's management team, staff and airport partners are working hard to ensure that everyone has a safe travel experience.

Five Year Strategic Plan

In January 2020, VAA released its new Strategic Plan for 2020 – 2024. The plan reflects VAA's mission, vision and strategic goals for the next five years. While COVID-19 may have an impact on the Strategic Plan, the Board and Management team are adjusting to the new reality impacting air travel. One of the mandates is to ensure Victoria International Airport (YYJ) remains a low-cost, high quality airport with a strong focus on customer service.

Lower Passenger Departure Lounge

In September 2019, phase one of the new lower passenger departure lounge opened. The new space saw the addition of new food and beverage offerings and expanded seating. Work continues on phases two and three, which are expected to be complete this year.

A new washroom block and additional retail outlets are currently being constructed, and Spinnakers plans to expand their existing restaurant.

The terminal expansion was built to meet YYJ's growing passenger volumes, but then the travel industry was hit by the coronavirus which changed everything. In light of the COVID-19 pandemic, the financial investment VAA made to create this larger space was actually a blessing in disguise as it will now accommodate the social distancing measures required for travellers.

Board Transition

VAA currently has 13 Board members representing nine nominating entities and one Board member at large appointed by the VAA. Over the past year there has been some transition on the Board.

In December 2019, VAA said farewell to Lynne Henderson who served as Board Vice-Chair, Chair of the Airport Consultative Committee and Chair of the Art at the Airport Advisory Committee. She served on the Board for eight years and brought great insight and thoughtful reflection to the discussions.

The Board welcomed back Frank Leonard who was re-appointed by the Government of Canada. Mr. Leonard had been a member of the Board for three years, then due to some changes in government processes relating to board appointments, there was a two-year delay. VAA is pleased to see that he has returned to help guide the airport through these challenging times.

Carol Brown, also appointed by the Government of Canada, joined the Board in 2020. She brings extensive experience in organizational development, focusing on the people side of business. Ms. Brown practiced commercial law for over 20 years, has an accounting designation and completed the Rotman School of Management training. She has a PhD and is an associate faculty at Royal Roads University teaching Law, Conflict Management and Leading Change. She previously served on the Board of Directors for the Prince George Airport Authority, so she is very familiar with the challenges faced by the aviation sector. The Board looks forward to her contributions over the coming years.

Concluding Remarks

The Chair wished to acknowledge the dedication and hard work of his Board colleagues who provide strategic guidance and oversight to the Management team.

Under the leadership of President and CEO Geoff Dickson, the Management team continue to work incredibly hard to make YYJ the best airport it can be.

After facing many years of consistent growth, YYJ is facing one of its biggest challenges next to the 9/11 terror attacks. It may take some time to regain the public's trust in air travel, but rest assured that VAA's staff are working diligently to protect its customers through enhanced cleaning protocols, technology improvements and new physical barriers to ensure the safety of guests. As the COVID-19 situation evolves and travel restrictions are lifted, YYJ is rising to the challenge to make everyone's travel experience better.

4. Presentation of the Financial Report for the Year Ended December 31, 2019 by the Chief Financial Officer

Chief Financial Officer Randy Bogle reported on VAA's audited financial results for the year ended December 31, 2019. VAA's 2019 Annual Report contains the detailed financial statements and are available on the YYJ website: www.victoriaairport.com under the document library.

The independent financial auditor, Sang Ly, Partner with KPMG, was participating remotely to answer any questions from the public.

Background

VAA began operations in 1997 when a 60-year lease was signed with the Federal government to operate Victoria International Airport. The lease was subsequently extended for an additional 20 years and now runs until 2077. VAA is a local, not-for-profit, non-share capital corporation and as such there are no shareholders. All profits are reinvested in the airport and airport lands. VAA's unique operating model has resulted in capital investments in excess of \$214 million since 1997, with over \$90 million of this coming in the last five years.

2019 Passenger Traffic

In 2019, total passenger traffic was 1,924,385 which was down 6.1% to 2018. Passenger traffic was down as a result of fewer aircraft seats into YYJ. This was due in part to the grounding of the 737-MAX aircraft. WestJet and Air Canada have a combined fleet of 37 of these aircraft that had been expected to fly in 2019. As a result of the grounding, there were fewer available aircraft to fly so adjustments had to be made about which routes to fly and which aircraft would service the routes. In addition to the 737-MAX issue, there was also a reduction in seats caused by United Airlines and Delta Air Lines discontinuing service into YYJ.

2019 Revenue

Aeronautical revenue consists of landing fees paid for aircraft to land at YYJ and use the terminal building. The reduction of seats impacted Aeronautical Revenue. Fewer seats in 2019 meant fewer aircraft which resulted in lower landing and terminal fee revenue. For 2019, Aeronautical revenue was \$7.4 million, which is 5% less than 2018.

The decrease in passengers resulted in lower Airport Improvement Fee (AIF) revenue. The AIF is a \$15 fee that is charged to enplaned passengers. It is collected by the air carriers as part of the ticket price and is passed on to the airports. These monies are restricted and can only be used to fund eligible capital projects such as the expansion of the lower passenger departure lounge. For 2019 AIF revenue was \$14.2 million, approximately \$900,000 less than 2018.

Concessions, land rent and other income make up Non-Aeronautical Revenue. Despite the decrease in passengers, Non-Aeronautical Revenue increased by \$1 million to \$16.5 million in 2019. This was led by increases in year-over-year rental car and parking revenue. YYJ has one of the largest percentages of non-aeronautical revenue of any airport in Canada. Having a dependable and diversified source of non-aeronautical revenue allows VAA more flexibility when it comes to setting aviation fees and initiating other non-traditional capital projects, such as the Flight Path multi-use trail around the airport. VAA's diversified revenues also allow it to better withstand downturns in passengers and aeronautical activity.

VAA's Deferred Capital revenue relates to the accounting reconciliation of funds received from CATSA in 2017 for the baggage system. For 2019, the Deferred Capital was just over \$1 million.

Total revenue for 2019 was \$39.1 million.

2019 Expenses

Total expenses for 2019 were \$29.9 million, an increase of 5.6% over 2018. Increases in expenses primarily relate to investments in VAA's staffing complement, increases in the number of service contracts, and costs related to the extreme snow event in February 2019.

Net Income

Net income for 2019 was \$9.2 million, a decrease of over \$1.9 million over 2018. The variance in year-to-year income is driven by a reduction in revenue, reduced Aeronautical and AIF revenues, coupled with the increase in expenses.

Concluding Remarks

In summary, VAA ended 2019 in great financial position, with a strong balance sheet, excellent working capital, a healthy cash balance and no debt. This has greatly assisted VAA navigate the challenges of COVID-19 which has had a significant financial impact on YYJ and caused a significant downturn in revenue. VAA's strong financial position has served the company well and will continue to sustain it during the unprecedented coronavirus situation.

5. Report from the President and CEO

President and CEO Geoff Dickson shared some highlights and accomplishments from 2019, as well as some of the challenges faced by the Victoria Airport Authority in the wake of the COVID-19 pandemic.

Five Year Strategic Plan

In 2019, VAA dedicated much of its effort to fulfilling the strategic goals in the new Five Year Strategic Plan. The CEO spoke to accomplishments against a number of strategic goals:

Air Service Development:

- YYJ was the fastest growing airport of NAS airports with compounded growth of 6% per year, consistently ranking among the highest airports for airport service quality.

Exceptional Airport Facilities and Customer Service:

- VAA introduced Fresh Cup Roastery Café YYJ to the expanded Lower Passenger Departure Lounge, and the world famous Victoria Distillers will soon open.

Leadership in Environmental Protection and Management:

- YYJ was one of only 13 airports globally to achieve Airports Carbon Accreditation Level 2.

A Talented and Motivated Team of Employees:

- YYJ was named one of BC's Top 100 Employers.

A Financially Responsible Airport:

- The Air Transport Research Society, a global benchmarking group of academics that study over 250 airports annually, recognized YYJ as the most efficient airport in North America serving under five million passengers. The CEO accepted the award on July 2, 2020.
- YYJ's aviation costs remain among the lowest in the country and fully retired its debt in 2017. The EBIDTA margin which is a measure of the company's operating profit was 47% in 2019. This financial scenario left VAA in a position of strength for the unprecedented impact of COVID-19, in particular the aviation industry.

COVID-19 Impacts

In March after the COVID-19 pandemic halted non-essential travel, passenger traffic at YYJ decreased by 50%; in April and May, passenger volumes fell by nearly 98%, from approximately 5,000 passengers per day to just over 100 passengers. Passenger traffic for June started to increase; and heading into July the numbers have increased tenfold but traffic is still down over 80% year-over-year. Looking ahead, consensus estimates indicate traffic levels that airports saw in 2019 are unlikely to return until 2024.

VAA's sources of revenue have been negatively impacted by COVID-19; landing fees and terminal fees have been diminished, restaurants have closed, car rentals have dropped off, and the loss of revenue has impacted YYJ's ability to fund its capital program. Despite land rent remaining a steady source of non-aeronautical revenue, VAA anticipates a significant revenue drop from \$39 million to \$16 million.

In an effort to preserve cash, VAA took immediate steps to cut expenses by 20%. Many of the airport's costs are fixed and certain programs must be retained regardless of the number of flights per day. The 2020 capital program was significantly scaled back to those that are safety-related or carryover projects that are more than 80% complete. VAA closed down the east side of the terminal building to operations in an effort to reduce costs and undertook deep cleaning of the space in anticipation of when it may be needed again. In order to build consumer confidence in air travel, VAA took immediate steps to enact new cleaning protocols.

In order to better understand what the future may look like, VAA is working through a number of financial models based on consensus estimates and reviewing enablers for recovery. For the aviation industry to recover, travel restrictions need to be lifted but it must be guided by science. Airlines may be looking to consolidate hubs and focus on core profitable routes, and airports may have to raise fees to cover increased cost burdens from lost revenue.

Other challenges to restoring air travel may be the remote meeting technology as it is proving to be a viable alternative to business travel. With enhanced biosecurity and sanitizing measures in airports, travellers may view flying as less desirable than before. In the absence of a vaccine, there is a question whether the industry can put enough risk mitigation steps in place to encourage air travel once again. Around the world, the economy is starting to open up again. Canada has been a model on the world stage for what to do right. The last thing airports want to do is increase risk to travellers.

The CEO wanted to personally thank Dr. Bonnie Henry for her calm leadership during these challenging times. In tribute to the front-line workers, VAA created a new heart-shaped flower garden outside of the arrival doors as a way to pay tribute to their dedication and service to the public.

Airports operate in a world of safety and security risk mitigation and management. The idea of safety first is embedded in the corporate culture. Following the 9/11 terror attacks, security risk management was given the same prominence as safety management. Airports had to work with the safety agencies, and in the wake of COVID-19 airports must once again work with them regarding biosecurity measures. Air travel is still the safest way to travel, and risk mitigation allows people to travel safely.

The International Civil Aviation Organization (ICAO) has developed guidelines that Transport Canada is formally adopting. Recommendations include:

- Restricting access to airports to only passengers and employees;
- Temperature checks;
- Physical distancing;
- Wearing face coverings throughout the journey;
- Increased self-service options such as self-check in, self-bag drop and self-boarding;
- Enhanced cleaning and sanitization;
- Reduced queuing;
- Health/immunity passports;
- Contact tracing;

and other measures that are intended to reduce the overall risk of transmission. The intent is to create a sterile environment for travellers that, if done in a layered way, can reduce the overall risk of transmission.

On July 1, 2020, TravelSafe YYJ was launched to install consumer confidence and share safety protocols. Following the guidance of ICAO, VAA has restricted access to the terminal building and is offering free parking for those dropping off their friends and family or greeting them when they arrive. The programming on the entrance and exit doors has been changed for one-way flow to create physical separation. Face coverings are required at all times. Signage and directives have been installed on the seating and floor to create physical distancing.

YYJ is the first airport in the country to install plexiglass barriers in its security screening checkpoint, which has resonated most positively with travellers. Plexi barriers have also been installed at the taxi queue, car rental counters, restaurants and retail spaces. Probiotic products and electrostatic sprayers are used in cleaning, and 60 hand sanitizing units have been deployed. Washrooms are cleaned every hour to ensure that key common areas remain sanitized. The airport has never been cleaner and YYJ's customers are appreciative.

In the absence of a vaccine, creating a two-meter distance throughout the entire travel experience will be a challenge given the confines of an aircraft. Through proper air circulation, face masks and spacing there are ways to reduce risk and increase confidence.

Capital Program

YYJ's capital program has been carried out in staged investments. VAA's philosophy is to be just slightly ahead of the demand curve but not too much ahead, and not to add cost burden to our customers and airport partners. VAA will continue to do pro-forma modeling and seek out opportunities for cost improvements. If needed, VAA has arranged financing with its lenders if recovery does not happen quickly.

Impacts on Airports

There have been a number of inquiries about staff layoffs at YYJ as has been experienced by many other companies in the aviation industry. VAA has taken advantage of the Canadian Emergency Wage Subsidy (CEWS) and is greatly appreciative of the swift action taken by the Federal government.

Canadian airports are the envy of the world but there have been some gut-wrenching decisions by other airports to lay off up to 40% of their staff. VAA's absence of long-term debt has positioned it better to withstand the impacts of COVID-19 in the short term.

It has been emotional to watch Canada's two largest airlines, Air Canada and WestJet, take the unimaginable steps of laying off staff, closing bases and shutting routes. In January the industry was optimistically looking forward to 2020; no one predicted COVID-19 would arrive or have the devastating impacts it did.

Government funding for airports does not appear to be a priority for the Federal government. Looking at other countries such as France, the United States and Germany, they have received federal contributions at around \$60 per seat while in Canada it is less than \$2 per seat. While there are differing views on funding, airports are hopeful that the Federal government now understands the importance of airports to a country the size of Canada. Aviation has to be one of the strongest enablers for economic recovery.

COVID-19 has crippled the aviation industry with airline fleets being grounded and empty airports, resulting in significant layoffs. It is critical to find a way to reduce the risk of transmission to get the economy moving again. The coronavirus is the sixth pandemic in 17 years which has included outbreaks of SARS, H1N1 and Ebola. The industry has proven each time it emerges from a health crisis that air travel is stronger, safer and better than before.

Concluding Remarks

The CEO wished to thank the VAA staff who have worked very hard to get everyone through the crisis. He also expressed his gratitude to the Board of Directors for their thoughtful governance as VAA navigates this unprecedented situation.

The CEO hopes that people will want to fly again soon, and the team at YYJ will be ready to welcome travelers when they do.

6. Public Comments / Questions

The meeting moderator reviewed the questions and comments submitted by the public:

- **How much do you think the budget shortfall might be this year? How much have you arranged with creditors?**

In a typical year, VAA has free cash flow of \$18 million. In the wake of COVID-19, VAA is now looking at a net loss of \$11 million. Adding back non-cash items, in round numbers VAA is expecting a \$2 million loss in 2020. Management is looking at models over the next five years without any certainty with respect to revenue and the affordability of its capital program which is expected to be between \$50 – 60 million. VAA expects it will be able to bear the costs of executing the program, but there is no certainty in what the future will bring.

There were no further questions or comments from the public.

7. Concluding Remarks

The Board Chair thanked the moderator for overseeing VAA's first virtual public meeting. He also thanked Management and staff, and the public for their interest in Victoria International Airport. VAA appreciates any feedback from the public.

10. Adjournment

There being no further business, the meeting was adjourned.

A video recording of the Annual Public General Meeting is available on the YYJ website:

<https://www.youtube.com/watch?v=HUfLgn68gfo&feature=youtu.be>