



SUMMARY OF CATSA'S AMENDED 2007/08 TO 2011/12 CORPORATE PLAN, CAPITAL AND OPERATING BUDGETS

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Canadian Air Transport
Security Authority

Administration canadienne
de la sûreté du transport aérien

Canada 

Canadian Air Transport Security Authority

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Amendments to Chapters 1-4

Section	Page #	Current Information	Modified Information
Executive Summary	4 Para: 3	Taken together, the uncertainties associated with the impending decisions on the <i>CATSA Act</i> review and the potential impacts associated with a 36% drop in CATSA's funding levels (from 2007/08 levels) have constrained the development of this five-year Corporate Plan.	Taken together, the uncertainties associated with the decisions on the <i>CATSA Act</i> review and the potential impacts associated with a drop in CATSA's funding levels in 2008/09 compared to 2007/08 have constrained the development of this five-year Corporate Plan.
1.7	9 [right column, Airport Expansions]	Completed: Halifax. In progress: Toronto (T1), Vancouver, Montreal and Winnipeg are ongoing. Calgary Airport has moved the start date of its expansion to 2008. (Of note, Quebec City is currently in the design phase to construct a new terminal.)	Completed: Halifax. In progress: Toronto (T1), Vancouver, Montreal and Winnipeg are ongoing. Calgary Airport has moved the start date of its expansion to 2008. Quebec City has accelerated the expansion of its terminal and will implement its new HBS system in June 2008.
2.2	14 Funding and related issues [right column]	As CATSA moves to an emphasis on measuring performance and continuous improvement of ongoing operations in support of Special Examination recommendations and in preparation for the decisions emanating from the five-year review of the <i>CATSA Act</i> , its current activities will rapidly come under increased pressure over the planning period. While the government's recent program integrity funding commitment provided near-term financial support, CATSA's long-term reference levels have not been adjusted to reflect operational realities. CATSA's current funding envelope is unsustainable: the Authority has no capital funding beyond 2007/08 and its operating budget falls from \$365 million in 2007/08 to \$290 million in 2008/09 and beyond, a drop of almost 20% from \$365 million in 2007/08 to \$290 million in 2008/09 and beyond.	As CATSA moves to an emphasis on measuring performance and continuous improvement of ongoing operations in support of Special Examination recommendations and in preparation for the decisions emanating from the five-year review of the <i>CATSA Act</i> , its current activities will rapidly come under increased pressure over the planning period. While the government's program integrity funding commitment announced in the 2006 Budget provided near-term financial support and the emergency funding secured from the management reserve in the fall of 2007 provided immediate relief from certain operational and capital pressures , CATSA's long-term reference levels have not been adjusted to reflect operational realities. CATSA's current funding envelope is unsustainable: the Authority has no capital funding beyond 2008/09 and its operating budget will be \$234 million in 2008/09 and beyond.

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2.2	15 Para 2 [left column]	In the federal budget delivered on May 2, 2006, the Government of Canada addressed CATSA's projected funding shortfalls in 2006/07 and 2007/08 through a program integrity funding commitment amounting to \$211 million. With this funding, CATSA is able (through the 2007/08 fiscal year) to maintain appropriate levels of service and security; implement a comprehensive maintenance regime for its more than half a billion dollars worth of installed EDS equipment across the country; purchase and integrate new PBS and HBS equipment for several airport expansion projects; and make financial commitments to service providers in recent contract renewals that reflect market-driven increases in screening officer compensation. In 2006/07, CATSA managed, on a one-time basis and within existing reference levels, to address the incremental costs associated with implementing enhanced security measures resulting from the events of August 10, 2006. However, CATSA is working with Transport Canada to identify a source of funds for the 2007/08 fiscal year to address the ongoing costs of implementing these measures.	In the federal budget delivered on May 2, 2006, the Government of Canada addressed CATSA's projected funding shortfalls in 2006/07 and 2007/08 through a program integrity funding commitment amounting to \$211 million. With this funding, CATSA is able (through the 2007/08 fiscal year) to maintain appropriate levels of service and security; implement a comprehensive maintenance regime for its more than half a billion dollars worth of installed EDS equipment across the country; purchase and integrate new PBS and HBS equipment for several airport expansion projects; and make financial commitments to service providers in recent contract renewals that reflect market-driven increases in screening officer compensation. In 2006/07, CATSA managed, on a one-time basis and within existing reference levels, to address the incremental costs associated with implementing enhanced security measures resulting from the events of August 10, 2006. In the fall of 2007 CATSA secured emergency funding from the Government of Canada to offset the continuing incremental costs of enhanced security measures in 2007/08 and to accommodate the capital costs associated with the acceleration of the Quebec City expansion. CATSA is working with Transport Canada to identify a source of funds to address the ongoing costs of implementing these measures beyond 2007/08.
2.2	16 Para 3 [left column]	CATSA will continue to work with Transport Canada to explore funding options for 2007/08 to address the ongoing financial pressures associated with implementing these measures.	In the fall of 2007, CATSA worked with Transport Canada and central agencies to secure emergency funding to address the financial pressures associated with implementing these measures in 2007/08.

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2.2	17 Para 2 [right column]	Funding from Budget 2006 also allowed CATSA to address the equipment requirements of certain airport expansion projects that were known at that time. In the coming years, other airports will undergo expansions of their facilities that will require additional EDS equipment (e.g. Quebec City). An important challenge facing CATSA is the difficult attempt to annualize the capital costs of acquiring and installing equipment associated with these multi-year projects, especially when the Authority has no capital funding beginning in 2008/09. Large airport expansion projects are not controlled by CATSA and unexpected delays in the construction process may have a significant impact on CATSA's budgetary cycle as expenses budgeted for one fiscal year may instead be incurred in the next. While it is recognized that the Annual Reference Level Update of the government's budgetary cycle is a mechanism available to manage capital re-profiling, the exercise occurs only once per year and does not afford CATSA enough flexibility with respect to potential delays in expansion projects.	Funding from Budget 2006 also allowed CATSA to address the equipment requirements of certain airport expansion projects that were known at that time. In the coming years, other airports will undergo expansions of their facilities that will require additional EDS equipment. An important challenge facing CATSA is the difficult attempt to annualize the capital costs of acquiring and installing equipment associated with these multi-year projects, especially when the Authority has no capital funding beginning in 2008/09. Large airport expansion projects are not controlled by CATSA and unexpected delays or accelerated timelines during the construction process may have a significant impact on CATSA's budgetary cycle as expenses budgeted for one fiscal year may instead be incurred in the next. For example, initially slated for 2008/09, the Quebec City expansion requires funding from the 2007/08 budget. While it is recognized that the Annual Reference Level Update of the government's budgetary cycle is a mechanism available to manage capital re-profiling, the exercise occurs only once per year and does not afford CATSA enough flexibility with respect to potential delays in expansion projects.
4.1	27 Para: 2 [right column]	Beginning in 2008/09, CATSA's reference levels drop from \$365 million to \$290 million for operating and from \$90 million to \$0 for capital.	Beginning in 2008/09, CATSA's operating reference levels will be \$234 million and capital reference levels will be \$0 in 2009/10.
Chapter 5			Due to the high number of changes to this chapter, a new version of the chapter is attached.

5 FINANCIAL ANALYSIS

CATSA is accountable to Parliament, through the Minister of Transport, Infrastructure and Communities, and must fully disclose its financial statements in its Corporate Plan.

However, pursuant to subsection 32(2) of the *CATSA Act*, CATSA must keep confidential any information the publication of which, in the opinion of the Minister of Transport, would be detrimental to air transport security or to public security, including financial and other data that might reveal such information. For that reason, financial data contained in this chapter is limited in detail.

In 2006/07, CATSA delivered mandated programs and met corporate objectives within approved reference levels. This was accomplished despite the additional costs incurred as a result of enhanced screening measures introduced following the alleged U.K. terrorist plot against commercial aviation on August 10, 2006.

5.1 Overview of CATSA's Financial Situation

The main financial events presented below characterize 2006/07 activities and help to explain most of the **actual**-to-budget variances:

- Following the alleged U.K. terrorist plot against commercial aviation in August 2006, CATSA was directed by the Minister of Transport, Infrastructure and Communities to implement enhanced screening measures for liquids, gels and aerosols. Additional PBS operating costs were required to address the enhanced measures to cover screening hours, overtime, new screening officers' training and uniforms, and communications. CATSA used cost savings to offset the incremental costs of the enhanced screening measures.
- The decrease in the HBS program is the net result of the increase in HBS screening costs offset by the decrease in HBS equipment maintenance costs. HBS screening costs represent, for the first year, the full screening requirements of the National Deployment Plan of HBS installations at all 89 airports. HBS screening has also been impacted by the HBS contingencies required at Vancouver airport, the screening officers added at Montreal airport, and the enhanced screening measures. CATSA also experienced an under-spending in HBS equipment maintenance. CATSA has a policy to support airports with in-line HBS systems in terms of conveyor maintenance and baggage handling.
- NPS program activities, including random search and transborder flights, have been managed within the operating budget allocation of \$20 million annual operating ceiling shared with RAIC. Non-passenger screening was also impacted by the enhanced measures when they were first introduced, as screening officers were reassigned to perform search activities. In the weeks following the adoption of the new screening measures, CATSA devoted a lot of effort to train new hires and reassign screening officers back to NPS activities. In addition, the number of NPS checkpoints is less than originally planned.
- RAIC enrolments of over 100,000 Class I and II airport employees accessing airport terminal buildings were completed by December 31, 2006, with the exception of Toronto and Vancouver, which were completed by January 31, 2007. CATSA also worked with airport authorities to finalize the RAIC readers installation, the airport applications interface, and the Multi-Airport Pass functionality by December 31, 2006.
- **Employee costs increased in 2006/07 because of the special contributions to the pension plan to fund the solvency deficit identified by the most recent actuarial review of the pension; the accounting expense booked as a result of the accounting valuation performed in March 2007; and the conversion of the twelve Learning and Performance Advisors (LPAs) from fixed-term to indeterminate to address capacity needs in training and certification; and the need for additional fixed-term employees to meet current workload demands, including implementing the enhanced screening measures.**
- The reduction in capital funding represents \$20 million in re-profiled projects approved as part of the 2007/08 ARLU and \$6 million savings in EDS projects reallocated from capital to operating to fund part of the incremental costs associated with the enhanced screening measures.

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5.2 Principal Amended Budget Assumptions for 2007/08 and beyond

CATSA's operating and capital budgets total **\$453 million** for fiscal year 2007/08. **This is comprised of \$455 million in the original corporate plan, less the \$43.4 million re-profiled to 2008/09, as well as the addition of \$41 million from the Treasury Board Management Reserve.**

The budget presented for fiscal year 2007/08 reflects savings and access to Treasury Board Management Reserve to cover the incremental operating costs related to the enhanced screening measures for liquids, gels and aerosol introduced August 2006 (**\$25 million operating**). **The budget also reflects** recent airport demands impacting screening services and capital spending: for instance, the addition of **21** new PBS lines required for Toronto's Pearson International Airport (**Pier F of Terminal 1 and Terminal 3 International East**) starting February 2007 (**\$13 million operating**), and the new terminal at the Quebec City airport (**\$6.05 million capital in 2007/08**). These pressures demonstrate clearly the correlation between the industry's constant demands triggered by rising passenger traffic **and the new enhanced measures introduced in 2006** and their impact on CATSA's operations, plans and **forecasts**.

CATSA's operating budget for 2007/08 totals **\$400 million** which represents an increase of **\$53 million, or 15%**, over the 2006/07 budget of \$347 million. **The increase is primarily a result of the new enhanced measures introduced in 2006, and the remainder is driven by the ongoing increase in passenger traffic.**

Operating Budgets and Plans

Screening Programs

The increase in the PBS, HBS and NPS screening programs in 2007/08 is mostly related to the increase in screening providers' contracts. With the Airport Screening Services Agreements expiring March 31, 2007, CATSA negotiated with its service providers a 2-year contract extension up to March 31, 2009 to ensure continuity of screening services beyond April 1, 2007.

The extended contracts bring the average hourly billing rate to **\$23.63** in 2007/08 (**3%** increase) and **\$25.54** in 2008/09 (**8%** increase), which directly relate to wage increases provided within the majority of Class I airport collective agreements. In addition to the billing rate increases already contained in the contracts, there is continued pressure on the service providers from unions to increase wages and benefits for screening officers in order to attract and retain qualified people and to reflect the market-driven realities; this continued pressure will be reflected in future screening RFPs.

Increasing passenger volume still remains one of CATSA's key cost drivers as it is forecasted to grow **by over 21%** over the next five years. This rise in passenger traffic increases the need for additional screening lines and screening hours to maintain service levels and the integrity of the screening process, which constantly puts pressure on CATSA's operating and capital budgets, despite the Authority's continuous effort to realize efficiencies and control costs.

As a 100% appropriations-based Crown corporation, CATSA has little to no financial flexibility to deal with the dynamic economic realities of the air transportation industry, nor with new and emerging security threats. Responding to security threats represents a significant challenge when it comes to funding related measures. As CATSA is directed to implement enhanced screening measures, the incremental costs associated with such measures need to be adequately funded.

In addition to the above, an additional 21 lines were opened further to the completion of the expansion of the Toronto airport. All of the above-mentioned changes are not yet permanently funded. For 2007/08, the enhanced screening measures are funded by the Treasury Board Management Reserve.

CATSA anticipates similar industry demands and security threats affecting its operating and capital budgets to be a lasting trend over the planning period. However, CATSA's planned expenditures for fiscal year 2008/09 and beyond are based on approved operating reference levels of **\$234 million**. A review of CATSA's expenditures and cost drivers to determine how mandated programs can be delivered within approved reference

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levels only leads to options with unsustainable reductions in screening service levels, and the termination of the EDS-related conveyor maintenance reimbursement program to airports.

NPS program costs are expected to remain fairly constant over the planning period, with a reduction in screening activities proportional to the increase in the hourly billing rate and fixed fees. NPS operating activities are maintained to ensure random screening meets regulatory requirements within the funding envelope shared with RAIC.

Budgets related to HBS equipment maintenance and parts (i.e. life-cycle management) in 2007/08 are lower than originally planned for the same year as they reflect the increased knowledge gained in the past year in terms of equipment reliability and service standards, equipment still under warranty, and favourable U.S. currency exchange rate. CATSA has a policy to support airports with in-line HBS systems in terms of conveyor maintenance and baggage handling, subject to available funding in 2008/09 and beyond.

RAIC program

A post-implementation review of RAIC Phase 1 will be conducted in 2007/08 for addressing resulting enhancements. CATSA is in the process of determining the requirements and feasibility (for scoping work and cost) to deploy RAIC at locations outside the air terminal building but inside the airport perimeter for each Class I and II airport (Phase 2) in 2007/08. RAIC activities starting in 2008/09 will focus on maintenance, and related costs will be maintained accordingly.

Employee costs

As CATSA moves from deployment to full implementation of its security programs, there is a pressing need to strengthen CATSA's capacity. The number of employee positions for 2007/08 is planned at 300. Positions have been added in the areas of screening oversight and coordination, equipment life-cycle management, RAIC support, risk and performance, financial planning and reporting, human resources, information technology, and audit and legal services. Considering the aforementioned increase in positions along with the pension actuarial deficit and the annual salary increase, the overall impact on employee costs is an increase of **\$3.8 million or 13% over the prior year.**

Capital Budgets and Plans

The capital budget for 2007/08 amounts to **\$53 million. This amount is the \$90 million budgeted at the beginning of the year minus \$43.4 million re-profiled to 2008/09, and includes \$6 million from the Treasury Board Management Reserve for the Quebec City expansion.**

At this point, there is no funding allocated to capital spending **beyond 2008/09 (in 2008/09 the capital forecast is comprised of only the \$43.4 million re-profiled from 2007/08).** CATSA will not proceed with any capital expansion projects until they are funded.

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Capital Expenditures

(in thousands of Canadian dollars)

	March 31/06 Actual	March 31/07 Actual	March 31/08 Budget	March 31/09 Planned	March 31/10 Planned	March 31/11 Planned	March 31/12 Planned
Acquisition of new equipment:							
Explosives detection systems	\$128,453	\$75,146	\$39,497	\$34,995	\$-	\$-	\$-
Restricted area identification card	5,452	3,639	4,958	3,000	-	-	-
Non-passenger screening	(1,921)	(764)	-	-	-	-	-
Security learning and reporting systems	2,621	3,363	6,799	7,355	-	-	-
Local support centres	(15)	158	400	-	-	-	-
Corporate services	278	(144)	900	-	-	-	-
TOTAL CAPITAL EXPENDITURES	\$134,868	\$81,398	\$52,554	\$45,350	\$-	\$-	\$-

Operating Expenditures

(in thousands of Canadian dollars)

	March 31/06 Actual	March 31/07 Actual	March 31/08 Budget	March 31/09 Planned	March 31/10 Planned	March 31/11 Planned	March 31/12 Planned
Operating Expenditures (before depreciation):							
Pre-board screening	\$156,833	\$181,244	\$207,989	\$132,030	\$132,052	\$132,052	\$132,052
Air security related policing programs and HBS	92,714	120,012	144,177	57,873	57,853	57,853	57,853
Restricted area identification card	2,130	4,037	2,425	2,430	2,400	2,400	2,400
Non-passenger screening	11,446	10,843	13,801	11,100	11,128	11,128	11,128
Corporate services	28,790	31,975	35,728	31,597	31,597	31,597	31,597
Other operating expenses (funding)	(1,768)	(662)	(3,720)	(675)	(675)	(675)	(675)
TOTAL OPERATING EXPENDITURES	\$290,145	\$347,449	\$400,400	\$234,355	\$234,355	\$234,355	\$234,355
TOTAL CAPITAL EXPENDITURES	134,868	81,398	52,554	45,350	-	-	-
TOTAL EXPENDITURES	\$425,013	\$428,847	\$452,954	\$279,705	\$234,355	\$234,355	\$234,355