



Islands Trust

Position Paper on the *Coastal Ferry Act*

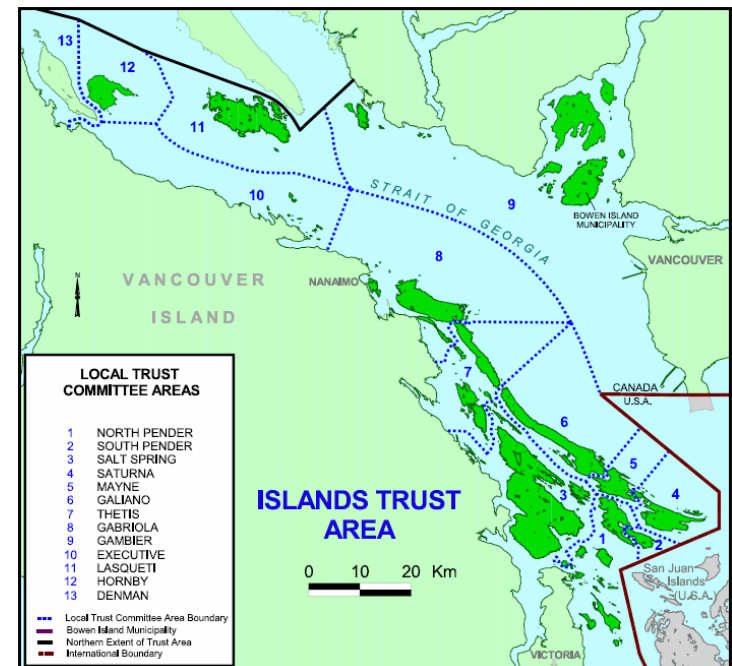
Issues and Recommendations Regarding The First Performance Term (2003-2008)
in Preparation for Negotiations for the Second Performance Term

INTRODUCTION

The Islands Trust and the Government of British Columbia share a strong mutual interest in the success of BC Ferries.

The Islands Trust Council is comprised of elected representatives of the island communities that lie between the British Columbia mainland and southern Vancouver Island (see map). The Council has a provincial mandate to preserve and protect the environment and communities of the Gulf Islands for the 23,000 residents, the many thousands of non-resident property owners, hundreds of thousands of visitors and for all British Columbians.

Eleven ferry routes serve these island communities, linked to four main routes from the lower mainland. These 11 direct routes carry 2 million cars and 4.8 million passengers annually, providing BC with an essential transportation service for residents, property owners, businesses and tourists.



The Islands Trust Object

*“to preserve and protect the trust area and its unique amenities and environment for the benefit of the residents of the trust area and of British Columbia generally, in cooperation with municipalities, regional districts, improvement districts, other persons and organizations and the government of British Columbia”
-- the Islands Trust Act*

Providing access to the Gulf Islands, with their unique character and spectacular scenery, BC Ferries has been a partner in the development of strong and diverse local economies, including a substantial tourism industry. Tourism benefits not only the islands, but also the adjacent urban centres and the provincial economy as a whole. As a transportation link, BC Ferries is to the Gulf Islands what the Sea to Sky Highway is to Squamish and Whistler and what the new Island Highway is to Vancouver Island.

SOME HISTORICAL CONTEXT

For the past 45 years, BC Ferries has provided safe, reliable, affordable and cost-effective ferry service to coastal British Columbia. On April 1, 2003, the *Coastal Ferry Act* transformed the BC Ferries Crown corporation into BC Ferry Services Inc., a private company wholly-owned by the Province of BC. The *Act* also provided for the appointment of an independent regulator, the BC Ferry Commissioner, to assure that fares provided an appropriate rate of return and protected the broad provincial public interest.

One of the stated aims of the new *Act* was to remove a long-standing perception of government interference in setting ferry fares and service levels.

The new structure segregated ferry routes into “Major” and “Non-Major” routes. Major routes do not receive a provincial subsidy; Non-Major routes do.

ISSUES AND RECOMMENDATIONS

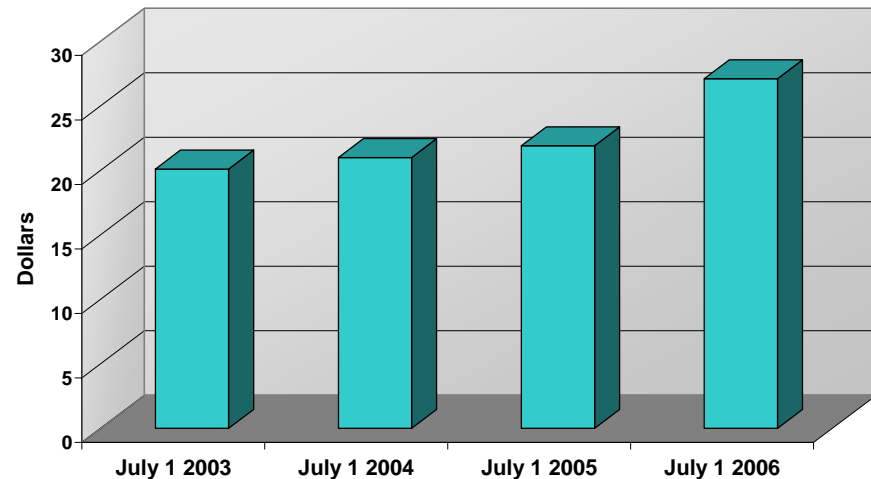
ISSUE 1: The Influence of Route Segregation on the 'User Pay' Principle

The new *Coastal Ferry Act* promotes a fundamental principle that the Non-Major routes, such as those that serve the Islands Trust Area, are to move towards a greater reliance on a 'user pay' system. Over time, ferry fares are to reduce the requirement for government contribution to ferry costs. The *Act* does not refer to potential impacts of this principle on ferry-dependent communities or on the broader provincial economy. It establishes annual fare increases for Non-Major routes at 4.4% and at 2.8% for Major routes.

If the same principle were applied to public transit in BC, transit riders would pay extra to use less productive routes. If applied to the provincial highway system, travelers would pay an extra fee to drive on less traveled roads. This does not happen, of course. As was previously the case with BC Ferries, costs and government funding in other provincial transportation networks are distributed over whole systems, normalizing user payments.

Adding to the effects of annual fare increases, BC Ferries added extraordinary fuel surcharges totaling 18.6% to ferry fares on Non-Major routes between July 2005 and June 2006. The chart on the right illustrates the resulting impact on a typical ferry rider.

BC Ferry Fares -- Pre-paid Tickets (Car, Driver & Passenger)
for a Typical Non-Major Route -- 2003-2006
(Source: BC Ferries Fare Schedules)



RECOMMENDATIONS TO THE PROVINCE

- Provide one rate for annual fare increases, applied as an aggregate across the entire BC Ferries system. Provide some flexibility to vary price increases on specific routes, while maintaining the aggregate rate of increase across the system.
- Use the same approach for surcharges. This still provides the opportunity to increase the proportion of costs borne by users. It would allow the flexibility to adjust fares and seek efficiencies for various routes and markets, with due consideration of the impact of such adjustments on the communities served.

- Adjust provincial funding annually to correspond to the British Columbia or Vancouver Consumer Price Index, rather than leaving the fare-paying customer to absorb the full effects of inflation.

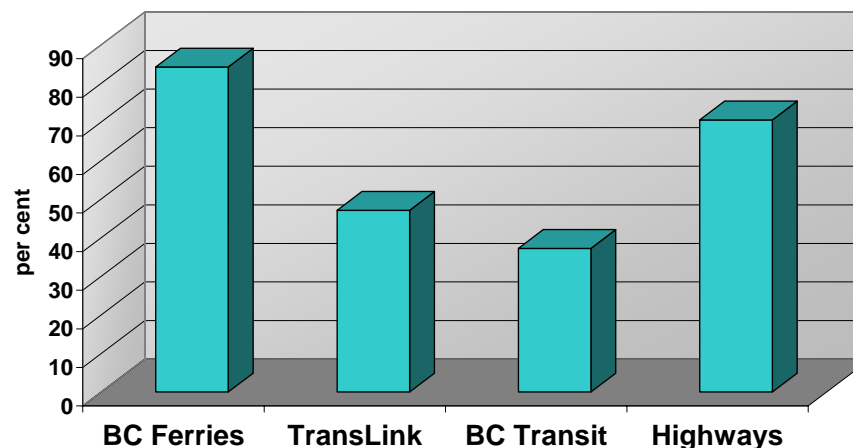
ISSUE 2: BC Ferries As An Essential Part of the Provincial Transportation Network

Highways, public transit and the ferry system are the three principal elements of provincial public transportation in our unique coastal province. While TransLink is now under the direction of the Greater Vancouver Regional District, it is supported through a provincially-granted taxing authority. The provincial government has converted BC Ferries, once a Crown corporation, into a private company. The provincial government owns it outright, and provides about 20% of its revenue.

Coastal ferry services, carrying 22 million passengers annually, are part of the Ministry of Transportation's "Core Business Areas" in its 2005/2006 Annual Service Plan Report. The ferry system is a vital pillar of the province's transportation infrastructure. It requires government support, not only in the interests of ferry-dependent communities, but also in the interests of all British Columbians. Contrary to some popular opinion, users of BC Ferries already contribute a greater percentage of costs than do users of other forms of public transportation in BC (see graph on right).

With 14 of its 61 vessels over 40 years of age, BC Ferries is going to need substantial capital infusions for replacement and possible additional ships over the next few years. The *Coastal Ferries Act* places the burden of vessel replacements solely on the fare-paying customer. We believe this is untenable.

Public Transportation in BC
Percentage of Full Cost Recovered From Users -- 2005
and 2006
 (See Appendix 1 for full calculations and sources)



RECOMMENDATIONS TO THE PROVINCE

- Participate to a substantial degree in funding BC Ferries vessel replacements, as well as fleet additions, terminal improvements and mid-life upgrades.
- View major capital expenditures at BC Ferries in the same light as the new William R. Bennett Bridge across Okanagan Lake and provide similar levels of extraordinary funding.
- Enshrine provincial participation in vessel replacement in the *Coastal Ferry Act*. Provincial funding should reflect the realistic needs of the system, in partnership with the fare-paying travelers.

Note: We are encouraged that the province has acknowledged the need to contribute to vessel replacement by boosting the Northern Routes 2007 service fee by \$14 million, facilitating purchase of replacement vessels for the Queen of the North and the Queen of Prince Rupert, as well as needed terminal upgrades.

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ISSUE 3: Cross Subsidization

The *Coastal Ferry Act* states that, by the end of the first performance term, Major routes must not subsidize Non-Major routes.

Such subsidies occurred in Year 1 of the performance term. In Years 2 and 3, Non-Major routes showed net positive incomes. This picture could change dramatically if a few routes have disastrous maintenance experiences such as occurred on Route 5 (Swartz Bay-Southern Gulf Islands). There, operating expenses increased from \$14.4 million to \$19.2 million from 2004 to 2005. In fact, the whole system relies on cross-subsidization. Routes 1 (Tsawwassen-Swartz Bay) and 2 (Horseshoe Bay-Departure Bay) subsidize the money losing Route 30 (Tsawwassen-Duke Point). The Routes 1, 2, 30 and 3 (Horseshoe Bay-Langdale) receive revenue when they carry passengers connecting to Non-Major route destinations. Among the Non-Major routes, the more productive ones support those in need of greater assistance. It appears that the requirement of 'no cross-subsidization' is an artificial one.

RECOMMENDATIONS TO THE PROVINCE

- Treat the entire BC Ferries system as a single entity with the objective of making the whole system more efficient and productive.
 - Carefully consider the ability of working communities to bear the burden of increased fares and the deterrent effect of 'too high' fares on the tourism industry.
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ISSUE 4: Surcharges

The *Coastal Ferry Act* permits BC Ferries to add surcharges to ferry fares in extraordinary situations, such as unprecedented fuel price increases or the addition of a new vessel in mid-term. BC Ferries must apply to the Ferry Commission for such a surcharge. The Commission must approve applications that are necessary to cover unexpected costs. Once it receives an approval, BC Ferries consults with the Ministry of Transportation to see if it wishes to absorb part of the projected fare increase.

Between June 2005 and June 2006, the BC Ferry Commission approved three surcharges related to extraordinary fuel costs. They represented increases of 6%, 3% and 9.6% for the Non-Major routes and 4%, 1.5% and 3.2% for the Major routes. The Islands Trust and various ferry advisory committees petitioned the Ministry to fund part of the increase, in proportion to its overall funding of ferry routes. In each case, the Ministry did not contribute. It left island residents, businesses and visitors to pay the full extent of the surcharge.

RECOMMENDATIONS TO THE PROVINCE

- Contribute to the costs of ferry fare surcharges in proportion to the existing funding ratio for ferry service.
- Require the BC Ferry Commission to assess the impact of extraordinary fare increases on ferry-dependent communities.
- Mitigate any unduly harmful impacts on the island or provincial economy by increasing provincial contributions to surcharges in an amount proportional to the government's share of the route funding.

ISSUE 5: The Big Picture

The *Coastal Ferry Act* does not consider the social or economic well-being of the ferry-dependent coastal communities.

Residents and businesses in ferry-dependent communities face substantial financial challenges to make ends meet. Many external economic pressures are forcing the working populations in these communities to leave. While high-profile media reports have focused on wealthy purchasers of island properties, island communities actually work because of a strong core of residents who operate essential services, many of them as volunteers. Ferry fare hikes that force these people to leave are exacting an ominous toll on island communities.

The Islands Trust Area accounts for 4.8 million ferry passengers annually. Last year, another 5.9 million passengers traveled on Non-Major routes outside the Trust Area. Communities outside the Trust Area are suffering similar impacts.

Changes to BC Ferries are threatening the health, even the survival, of coastal communities, just as British Columbia prepares to welcome the world to its coast in 2010 and to welcome growing numbers of international tourists in coming years. Coastal communities depend upon healthy and sustainable tourism as much as they depend on the affordable transport of goods and services.

If sharply rising ferry fares are allowed to choke off provincial tourism revenues and impose lasting damage on island communities, provincial losses will be far greater than any savings in service fees.

BC Ferries carried 297,000 **fewer** passengers in 2005/2006 than in the 2004/2005 fiscal year, even before the impacts of the latest fuel surcharges were felt. While there are many factors that may affect year-to-year traffic levels, fare pricing is a major one. We are unaware of any studies to date that have examined price elasticity, or the influence of fare increases on passenger travel and overall revenue.

RECOMMENDATIONS TO THE PROVINCE

- Amend the *Coastal Ferry Act* to require full and reasonable consideration of impacts on coastal communities and the provincial economy before approval of significant fare increases or service changes.
 - Amend the *Coastal Ferry Act* to require the consideration of price elasticity and an understanding of the relationship between fare prices and ridership, before fare changes are implemented.
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ISSUE 6: The Role of the BC Ferry Commission

The BC Ferry Commission has six guiding principles, directly related to the *Coastal Ferry Act*. However, unlike most commissions that regulate monopoly services, it has no direction or authority to assess the impacts of decisions on the people served.

The Commission does not have a requirement to consult with communities about proposed fare increases or service changes. It has no authority to require or recommend to the provincial government that it reconsider its contribution if there are demonstrated negative consequences for communities from proposed changes. There is no mechanism for ferry-dependent communities to be heard about negative impacts.

RECOMMENDATIONS TO THE PROVINCE

- Expand the operating principles of the BC Ferry Commission to include the requirement that it consult meaningfully with affected communities and consider the impacts of fare or service changes. This would make the BC Ferry Commission similar to other commissions that regulate the affairs of critical monopoly services.
- Authorize the Commission, upon discovery of negative effects related to a proposed fare adjustment, to require the province to increase its service fee sufficiently to mitigate the effects.

ISSUE 7: Public Consultation

The *Coastal Ferry Act* introduced a new concept in managing the ferry system with little prior public consultation or explanation. Nearing the second service term, it is essential that the province pause to assess those parts of the legislation that work, and those parts that are, or may be harmful to British Columbians. There is time to talk and listen to the public and particularly to those in ferry-dependent communities. We are encouraged that the Minister has indicated on at least two occasions that he “recognizes the importance of an effective, affordable ferry service to the health and vibrancy of local communities” and has committed the Ministry to discussions on service levels and other issues prior to the close of the current contract.

RECOMMENDATIONS TO THE PROVINCE

- Amend the *Coastal Ferry Act* to require meaningful consultation with affected communities prior to contract negotiation, or more frequently if there is clear evidence of undue harm to ferry-dependent communities.



THE COASTAL FERRY ACT – TIME FOR CHANGES

The Islands Trust supports many aspects of the *Coastal Ferry Act*. However, with negotiations underway for the second performance term, the Islands Trust believes it is not only timely, but critically important, to consider some refinements to the *Act* to address identified weaknesses that could not have been foreseen when the *Act* was originally crafted.

Residents and businesses in ferry dependent communities contribute to all forms of essential public transportation infrastructure through gas taxes, sales taxes, rural provincial property taxes, income taxes and regional district transit levies. They reasonably expect the provincial government to support their transportation needs as it supports public transportation needs throughout the province.

The Islands Trust Council is asking for fair and equitable treatment for island communities.

Message from Kim Benson, Chair – Islands Trust Council: We wish to make it clear to readers that this paper has been developed independently by the Islands Trust Council. Neither the BC Ferry Commission nor the management of BC Ferries has had any role in the creation of this report. As well, neither the Commission nor BC Ferries has been asked for nor expressed an opinion on this paper or its recommendations.

Appendix 1
Comparison of BC Transportation Infrastructure Financing

IN PREPARATION