

COASTAL FERRIES: AN UNNECESSARY CRISIS

Submission to the BC Government Budget 2014 Consultations
from the Ferry Advisory Committee Chairs, October 16, 2013

The Ferry Advisory Committee Chairs (FACC) respectfully submit this document to the BC Government Budget 2014 Consultations to request that the provincial government adjust its plans for coastal ferry service, and increase funding in accord with increases for other public services.

We share with the government a belief in the importance of coastal ferries, and a desire to ensure that communities are connected in ways that are affordable, efficient and sustainable.

We differ from the government in our assessment of the threats to affordability, efficiency and sustainability and how to meet them. We believe the government's current plan for ferries and visioning does not address those threats, and so does not provide a pathway to sustainability.

We ask the government to review and adjust its plan so that it targets the core trouble: fares, falling traffic and government contribution. Increased public funding to fix fares and traffic, as suggested in the pilot proposal below, is smart spending. It needs to be a priority because it is an investment in economic opportunity and growth and underpins access to health services and education. Such funding would mitigate the much more costly alternative, that of managing economic decline in this large area of the province.

Our assessment flows from our experience and knowledge of the ferry system and of our region. The FACC comprise the chairs, or their delegates, of the 13 coastal ferry advisory committees. We represent the communities served by the 22 minor, northern and Sunshine Coast routes. Some of our members have decades of involvement in coastal ferry issues; some have expertise in transportation management and planning, business, economics and community development. Collectively, our committees have more than 100 volunteer members, chosen by our communities to speak for the visitors and residents who make up the 9.6 million passengers on our routes. Our routes are very different from the major routes that connect Vancouver and Vancouver Island.

Overview

Coastal British Columbia is an iconic and profitable region of the province. Its prosperity depends on transportation, the same as in other regions. This requires public investment comparable to public investment in other regions. On the coast, it means investing in ferries.

If the current level of public investment is considered reasonable, why is ferry service in trouble?

We believe the system is in trouble because it has hit an affordability spiral. Fares are simply beyond what is reasonable and ever fewer people are paying. The province recognizes that action is needed, but its plan, to cut service, will have a minimal impact on the affordability spiral.

We ask that the government review and adjust its funding for ferries, considering these factors:

- 1. Sustainability starts with affordability.**
- 2. User pay keeps climbing and needs to be reversed.**
- 3. Traffic and fares: chickens, eggs and a pilot proposal.**
- 4. We need funding for capital, or fares will climb even more.**
- 5. History offers a useful lesson.**
- 6. Treating coastal ferries like other provincial transportation will eliminate the crisis.**
- 7. There is no silver bullet; ferries cost what they cost, and it's a deal for taxpayers.**
- 8. A vision for ferries starts with a vision for coastal communities.**

1. Sustainability starts with affordability.

Sustainability and affordability are terms open to interpretation, and need to be agreed on.

The provincial government focuses on the sustainability of the ferry system. But the system depends on the sustainability of the communities it serves. We discuss this in section 8.

Affordability can mean affordable from the perspective of the provincial budget, or of ferry users.

Affordability from a provincial budget perspective must weigh value for money, which we refer to in sections 6 and 7. Affordability also must weigh the impact of inadequate funding, which has two components. One is the impact of underfunding on the system, discussed in section 5.

The other impact is to economic benefits flowing to BC that could be lost without sustainable communities and transportation to them. Those benefits are in the form of taxes and contributions to provincial GDP. A few examples:

- Powell River contributed about \$200 million to the provincial GDP, about \$21 million in provincial taxes, and \$6.1 million in local taxes in 2008. (PRREDS, p.15)
- On northern Vancouver Island, the forest industry contributed \$50 million to provincial coffers in 2005. In 2008, Port McNeill alone contributed \$3.55 million. (TRAN, p.160)
- The 'Namgis First Nation of Alert Bay has \$300 million in assets and investments in northern Vancouver Island projects, which they are leveraging into economic growth. (TRAN, p.160)

The economic benefits to British Columbia from Powell River, Port McNeill, Alert Bay and other coastal communities and regions depend on healthy nearby service communities and sound transportation. The benefits and opportunities can only be sustained by investment in infrastructure, which includes ferry service.

Affordability from a user perspective is a more immediate and direct concern. It is not defined by a given number. In some cases, where travel is discretionary, unaffordable means that a trip is poor value for the money and people simply choose not to travel. Where travel is somewhat discretionary, people find ways to minimize travel costs, for example through car pooling, multi-tasking, having friend do errands, or using medical travel assistance. In extreme cases people simply don't have the money to travel.

Traffic levels are an affordability indicator. In all the above cases, if people or businesses can't afford high fares, they travel less. Traffic drops and BC Ferries can't meet its revenue targets. When the company can't meet revenue targets, it has to raise fares even more. And so on.

This is an affordability death spiral. It is the core problem facing coastal ferry service. The provincial rescue plan is to cut costs and service, and ignore fare increases. This plan misses the mark in several ways:

- It doesn't fix the already too high fares. Lost traffic cannot be recaptured. Lost community residents, businesses and services won't come back. It removes a mechanism for development and redevelopment.
- Annual fare increases will continue. Traffic will continue to fall. People, businesses and services will continue to leave or shut down. On top of development not happening, shrinkage will continue.
- On minor routes, potential savings from service cuts is in the order of hundreds of dollars per run. A huge number of runs needs to be cut to add up to the \$18.9 million left of the government cutting target. If all that remaining target amount is taken from the minor routes, the result will be a skeleton coastal transportation system.
- Cuts may decrease service costs, but capital costs continue growing, adding to future fare hikes.
- The affordability death spiral will continue.

2. User pay keeps climbing and needs to be reversed.

The *Coastal Ferry Act* of 2003 contained this principle [Section 38 (1) (f)]:

The designated ferry routes are to move towards a greater reliance on a user pay system so as to reduce, over time, the service fee contributions by the government.

The language was removed from the *Act* in 2010. But the user-pay principle remains active.

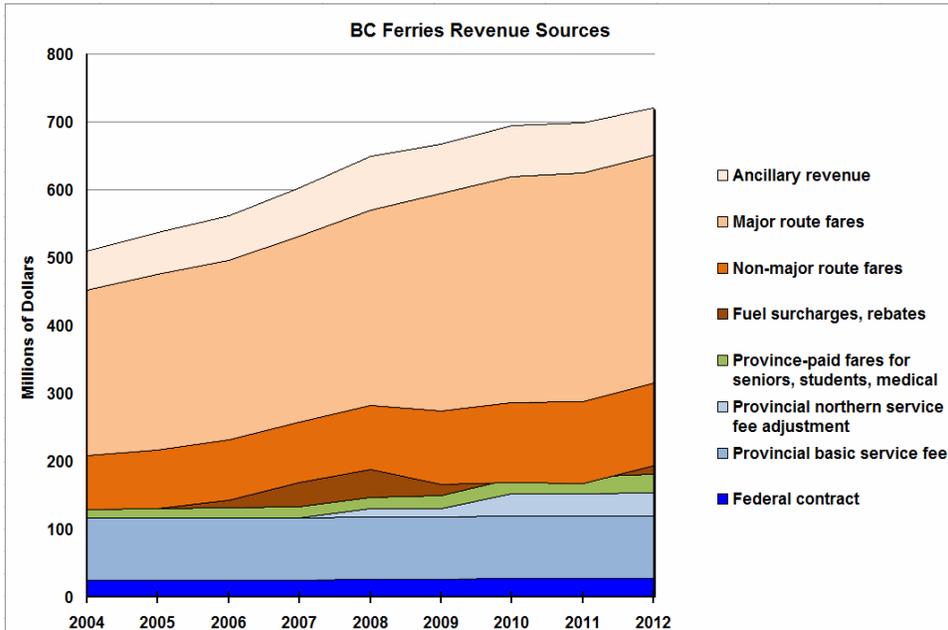


FIG 1:
Where BC Ferries get its money FY2004-FY2012. Brownish shades are from users. Blue shades are from governments. Green is from government to individual travellers. (Data: BC Ferries)

In this contract term, Performance Term 3 (PT3), BC Ferries will receive these additional contributions to the funding that existed on March 31, 2012:

- An additional **\$61.6 million** in government service fees;
- An additional **\$173.6 million** in user tariff fees (fares).

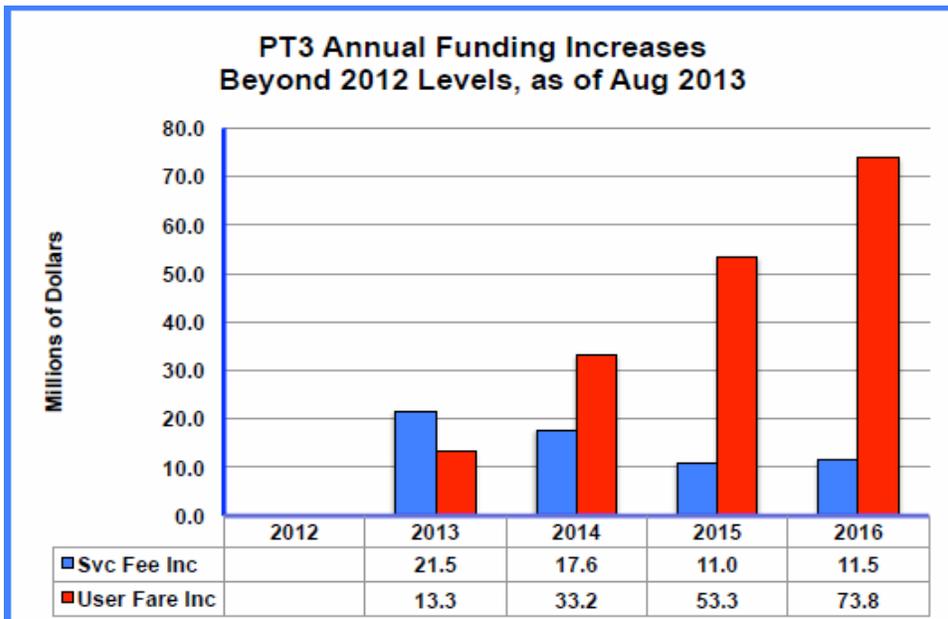


FIG 2:
Growth in user pay and in government pay in contract term PT3, FY2013-FY2016. (Data: BC government)

This rapid growth of user pay flows from the government's plan to cut service and costs. Here's how:

1. The provincial government mandated BC Ferries to find at least \$15 million in efficiencies over the four-year contract term. We have been advised that these have been found.
2. Service cuts would be used to save \$30 million over the four years. BC Ferries has cut some service on the major routes, amounting to \$4 million over PT3. Government delayed implementation of further service cuts until April 2014. To make up for the delay, government adjusted the cuts target from \$26 million to \$18.9M. It made up the difference with a \$7.1 million contribution.
3. The additional \$7.1M comes in FY2014. The timing of the other service fee additions does not change, but the total amount of new funding after FY2012 changes from \$54.5M to \$61.6M.
4. Fares increase as per the cap. We understand that this cap was calculated with the assumption that traffic would remain at FY2012 levels. This assumption has not panned out. FY2013 vehicle traffic fell 1.14%; passenger traffic fell 1.24%.
5. Assuming traffic for the rest of PT3 will remain at FY2013 levels, the existing fare caps will yield the following user-pay revenue:
 - a) 4.15% in FY2013, has yielded \$13.3M over FY2012 level
 - b) 4.10% in FY2014, will yield \$33.2M over FY2012 level
 - c) 4.00% in FY2015, will yield \$53.3M over FY2012 level
 - d) 3.90% in FY2016, will yield \$73.8M over FY2012 level
6. Along with the falling traffic, the average fare has dropped about 1% below the fare cap for PT3. This means fares, and hence user pay, could increase even more. This average is based on the overall mix of fares: vehicle, passenger, cash, Experience card. If the mix shifts to a higher proportion of passenger fares relative to vehicle fares, or Experience card over cash fares, the average fare drops below the fare cap. When this happens, BC Ferries can legally increase fares above the fare cap to close the gap. Conversely, if the shift goes in the opposite direction, as it does at times on the major routes, BC Ferries is obligated to lower fares. It uses its Coast Saver discount program as a mechanism to get back under the fare cap.

The above figures assume that traffic remains constant at FY2013 levels. and that the gap between the fare cap and actual average fare doesn't increase further. Both assumptions are optimistic in the light of current trends.

For the next contract term, PT4, starting on April 1, 2016, this high level of user pay will become the baseline for the next round of fare increases. These increases will begin to register the cost of new capital spending, which is discussed in section 4.

3. Traffic and fares: chickens, eggs and a pilot proposal.

Traffic, revenue, fares and shortfalls are all related. Some are simple relationships, such as falling traffic producing lower revenue. Some are complicated, such as higher fares leading to lower traffic, where fares are just one factor, although evidence suggests it is significant.

Traffic and revenue

In theory, BC Ferries should have no revenue shortfalls. It projects its expenses and traffic and the BC Ferry Commission calculates the fare cap, that is, the fare increase the company needs to make the money to cover the expenses. Problems arise when projections aren't met. BC Ferries

expense projections have been mostly on target. A big exception was the fuel price explosion in the last decade. But there was a mechanism to deal with that, fuel surcharges, and BC Ferries' bottom line didn't suffer.

Traffic projections are a different story.

If traffic projections work out, and if the fare mix is reasonably constant, BC Ferries will make its revenue targets. The problem is when the traffic projections are off, as in the previous section.

The revenue figures in that section are a best case scenario. Even if its assumptions are met, the projected tariff revenue increase for PT3, \$173.6 million, will fall short of the forecast made only a year ago, \$194.1 million. That best case scenario leads to a \$20.5 shortfall. It will be worse if traffic assumptions aren't met, which would be consistent with trends of the past several years.

This \$20.5 million - or more - shortfall is money the system needs and government apparently is not planning to make up. BC Ferries may look to make up the shortfall by finding internal savings above the current \$15 million target, or it may increase fares to close the gap.

Traffic and fares

The macro picture for ferry traffic shows a clear falling trend. It appears to have started at about the time of the economic crisis of 2008.

But buried in this data is the fact that traffic on the non-major routes started dropping in FY2005 and FY2006, coinciding with double-digit annual fare hikes on those routes. The fare increases on major routes lagged the non-majors. Major route fares started to grow substantially at about the time the economic crisis hit. Fare growth as an inhibitor of traffic would explain why traffic has not recovered from the economic crisis.

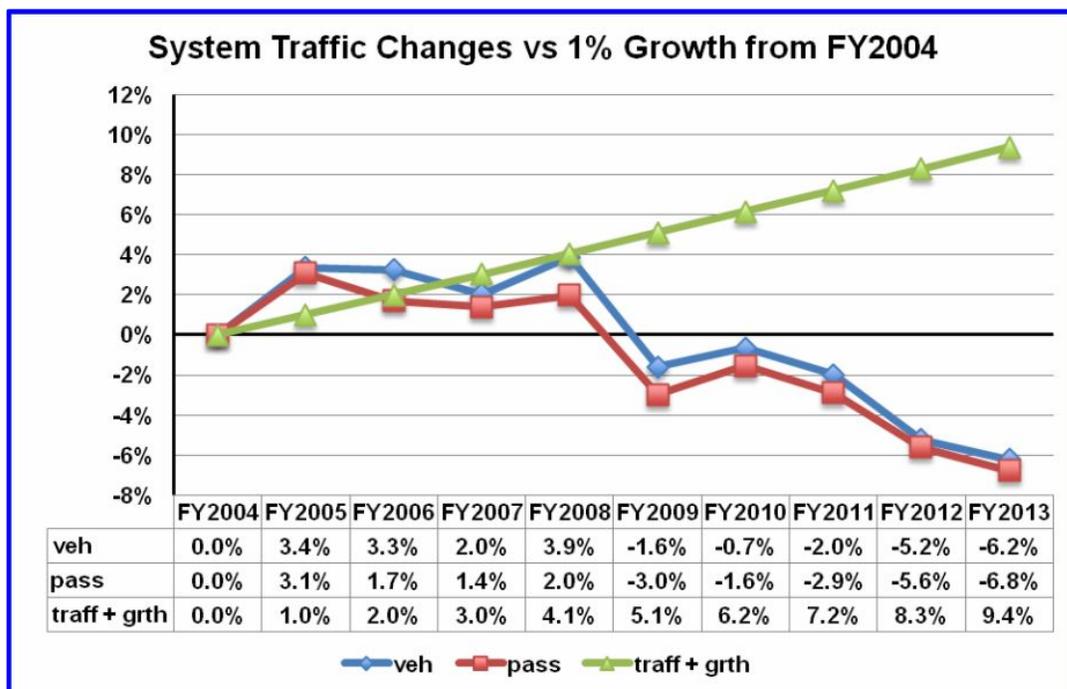


FIG 3: Ferry system traffic changes since the Coastal Ferry Act, compared to what traffic would have been if it were correlated to 1 % growth. (Data: BC Ferries)

The traffic+growth line gives a sense of the real traffic losses in the system. Traditionally, ferry traffic was considered to be determined by growth in population and growth in GDP. If this were so and fares had no impact and assuming a very conservative 1% growth factor, the loss of ferry traffic would be close to 16% within the span of the current funding and fare-setting regime.

There is more clear evidence that fares do affect traffic. In 2008 the provincial government funded a fare pilot project. It invested \$20 million to drop fares 33% for two months, December 2008 and January 2009. Data for December were complicated by notably bad weather that caused many more sailing cancellations than normal; many people cancelled travel plans altogether. Data for January were clearer. In a month with little traffic, few tourists, and an economic crisis spreading around the world, there was a notable uptick in traffic. Even allowing for some travel spillover from the disastrous December, traffic was still up by at least 6 % over the previous January (FACC, p.3).

A continuing example of fare impact on traffic is in overheight vehicle traffic. BC Ferries eliminated the overheight fare class in 2010 on all routes except the northern routes. Overheight vehicles now pay the same as underheight (regular) vehicles on the non-northern routes, resulting in substantially lower fares and higher traffic than before. The northern routes still have overheight premiums and their overheight traffic is still falling.

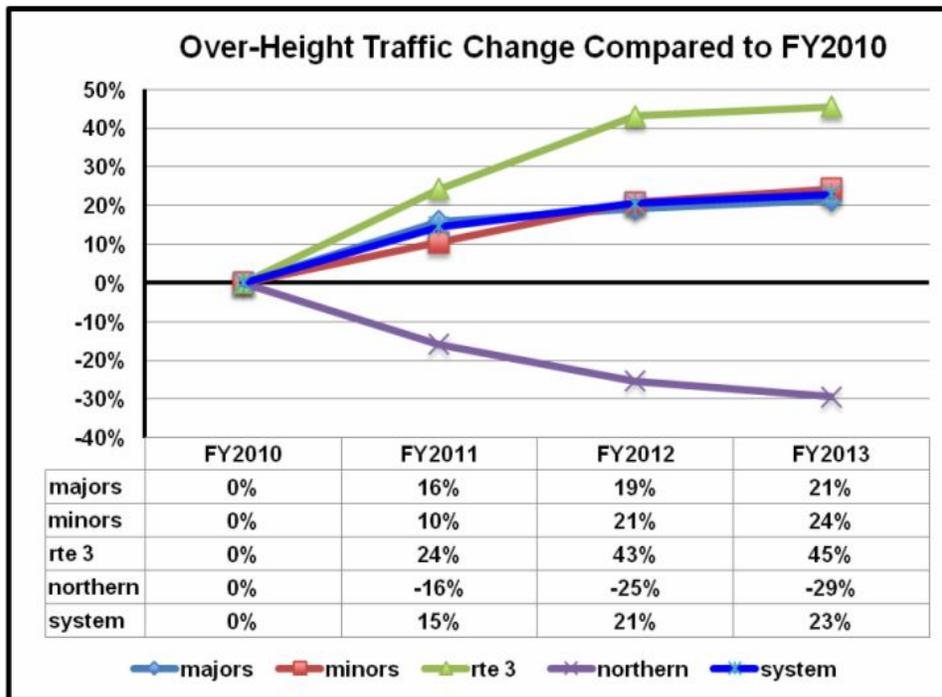


FIG 4: Overheight traffic changes since the lowering of fares for overheight vehicles on non-northern routes. (Data: BC Ferries)

What if - A proposal for a traffic stimulus pilot

The single biggest boost to coastal ferries would come from boosting traffic. We propose that the provincial government consider a pilot project for the remainder of this contract term. It would be to stop the decline in ferry traffic, and to start restoring the health of coastal communities. We believe the project will demonstrate conclusively that a return to affordable fares will raise traffic to the levels needed to assure sustainability of both BC Ferries and our communities.

We offer three possible pilot scenarios, to be applied to the minor, northern and Sunshine Coast routes. In all cases, revenue, regular and social program traffic and average fares are assumed to remain at FY 2013 levels.

Scenario A

Freeze fares at current FY2014 levels.

Additional funding: \$5.1M and \$10.3M in FY2015 and FY2016. Total: \$15.5M. There would also be a cost-neutral transfer from social program funding to service fees of \$0.6M and \$1.2M, total \$1.9M, as a result of the lower fares paid on behalf of the individual beneficiaries.

Scenario B

Roll back fares 25% in FY2015, then increase them 2% for FY2016. Assume traffic increases 10% in FY2015 and is sustained in FY2016.

Additional funding: \$27.6M and \$30.7M in FY2015 and FY2016. Total: \$58.2M. There would also be a cost-neutral transfer from social program funding to service fees of \$3.3M and \$3.7M, total \$7.0M, as a result of the lower fares paid on behalf of the individual beneficiaries.

Scenario C

Roll back fares 13.4% in each of FY2015 and FY2016. Assume traffic increases 3% and 5% in respective years.

Additional funding: \$19.0M and \$34.6M in FY2015 and FY2016. Total: \$53.5M. There would also be a cost-neutral transfer from social program funding to service fees of \$2.3M and \$4.5M, total \$6.8M, as a result of the lower fares paid on behalf of the individual beneficiaries.

	2015 (million \$)	2016 (million \$)	Total (million \$)
Scenario A	5.1	10.3	15.5
Scenario B	27.6	30.7	58.2
Scenario C	19.0	34.6	53.5

FIG 5:
Government funding increases that would be needed for a traffic stimulus pilot. (Figures: FACC)

4. We need funding for capital, or fares will climb even more.

BC's coastal ferry users pay for new ships and terminals out of their fares. BC Ferries finds investors who put up the capital, but users pay for the cost of that capital, and fares are set to cover those capital costs as well as operational costs. This is substantially different from lifeline ferry systems in Washington State, Alaska, Scotland and Newfoundland, where governments typically set fares to cover some portion of operational costs, and fund capital separately.

Capital is one of BC Ferries' big three costs along with labour and fuel.

Major costs affecting fares	FY 2004 (\$ millions)	FY 2012 (\$ millions)	FY 2013 (\$ millions)
Operations labour	202	257	263
Net financing and amortization	68	193	204
Fuel	50	121	121
Maintenance	84	86	70*
Materials, supplies, contracted services, other	33	34	33
Administration expenses	32	31	30
Insurance, property tax, utilities, credit card fees	10	23	21

FIG 6: Major BC Ferries costs affecting fares. (Data: BC Ferries)

*Some costs that were once classified as maintenance are now considered capital.

Of the big three costs:

- Labour costs are a known quantity, given the collective agreement and Transport Canada regulations that set minimum crewing levels.
- Fuel costs exploded in the last decade, but there are no expectations that they will grow much in the near future. If anything, fuel costs are expected to shrink as new fuels and technologies make operations more fuel efficient.
- Capital costs, however, are set to grow.

When BC Ferries was converted from a crown corporation into a regular corporation, it inherited an old fleet in urgent need of renewal. The average age of the fleet was 28 years (Wright, p.21). Since then, BC Ferries has built five new vessels and bought two used vessels. Yet, the average age of the fleet has grown to 33 years, and for the non-major routes, it is now 37 years. Recommended vessel lifespan is 40 years.

The new additions to the fleet are mainly on the major and northern routes. On the minor routes, fleet renewal is only just starting, which means fares have yet to feel the impact of spending to meet those capital needs.

The impact of deferring capital spending is demonstrated by the experience of Washington State Ferries. That agency had funding difficulties in the 1990s, which meant that it too deferred maintenance and capital replacement. The reality check came in 2007, when four of its vessels, each 80 years old and still in operation, were condemned. The state ferry operators scrambled to lease vessels to maintain service temporarily, and state legislators scrambled to find funding for new vessels. The following year, the state budget committed \$100 million to pay to build three new ferries.

In BC, the exact size and timing of new capital costs for ferries is not yet known. What is known is that they are unavoidable. And under the current plan, the new boats will be paid for entirely by ferry users.

5. History offers a useful lesson.

Underfunding of coastal ferry service is a very old problem.

Some of what we're facing now is a consequence of that underfunding and the resulting deferral of necessary spending. It offers a clear example of the need for timely investment. The need now is acute because the funding gap and investment need have been building for decades.

Figure 7 shows public funding to the BC Ferry Corporation for two decades, FY1978 to FY1998.

In the columns of *Actual funding*, the federal portion was (and still is) indexed to the Vancouver Consumer Price Index (CPI). The provincial part was indexed that way at first, but started going off the rails in FY1983. In the columns of *Theoretical indexed funding*, the figures show what the corporation would have received if the provincial government had continued to follow the CPI indexing of its contribution, as the federal government continued to do.

If the provincial funding for ferries had continued to match the rate of inflation, then there would have been no accumulated BC Ferries debt by 1998. Public funding would have covered it. This is tabulated in the cumulative difference column and the borrowing balance column of Figure 7, and is illustrated in Figure 8.

Fiscal Year	Actual funding (\$ millions)			Theoretical indexed funding (\$ millions)			Difference between Actual & Theoretical (\$ millions)	Debt (\$ millions)	
	Federal Portion	Provincial Portion	Total	Federal Portion	Provincial Portion	Total		Net Borrowing	Year end Borrowing Balance
77/78	8	35.56	43.56	8	35.56	43.56	0	0	0
78/79	8.55	38.01	46.56	8.55	38.05	46.6	0.04	0	0
79/80	9.23	40.22	49.45	9.23	40.98	50.21	0.76	0	0
80/81	9.93	43.17	53.1	9.93	44.18	54.11	1.01	0	0
81/82	11.01	47.88	58.89	11.01	48.99	60	1.11	19.07	19.07
82/83	12.54	30.46	43	12.54	55.75	68.29	25.29	31.36	50.43
83/84	13.68	29.32	43	13.68	60.82	74.5	31.5	-14.52	35.91
84/85	14.36	28.64	43	14.36	63.87	78.23	35.23	-2.79	33.12
85/86	14.9	25.1	40	14.9	66.16	81.06	41.06	45.55	78.67
86/87	15.38	41.62	57	15.38	68.28	83.66	26.66	6.96	85.63
87/88	15.88	41.12	57	15.88	70.54	86.42	29.42	-6.57	79.06
88/89	16.39	34.61	51	16.39	72.79	89.18	38.18	-7.29	71.77
89/90	16.99	34.01	51	16.99	75.49	92.48	41.48	-10.06	61.71
90/91	17.82	30.68	48.5	17.82	79.11	96.93	48.43	-7.63	54.08
91/92	18.82	32.18	51	18.82	83.62	102.44	51.44	145.71	199.79
92/93	19.57	23.53	43.1	19.57	87.05	106.62	63.52	146.65	346.44
93/94	20.25	16.08	36.33	20.25	90.09	110.34	74.01	68.68	415.12
94/95	20.9	13.05	33.95	20.9	93.07	113.97	80.02	15.72	430.84
95/96	21.32	9.35	30.67	21.32	94.83	116.15	85.48	68.7	499.54
96/97	21.8	4.7	26.5	21.8	97.02	118.82	92.32	181.87	681.41
97/98	21.93	4.7	26.63	21.93	97.6	119.53	92.9	110.03	791.44
							859.86		

FIG 7: BC Ferry Corporation Subsidy and Debt FY1978 - FY1998. (Table: BC Ferry Corporation)

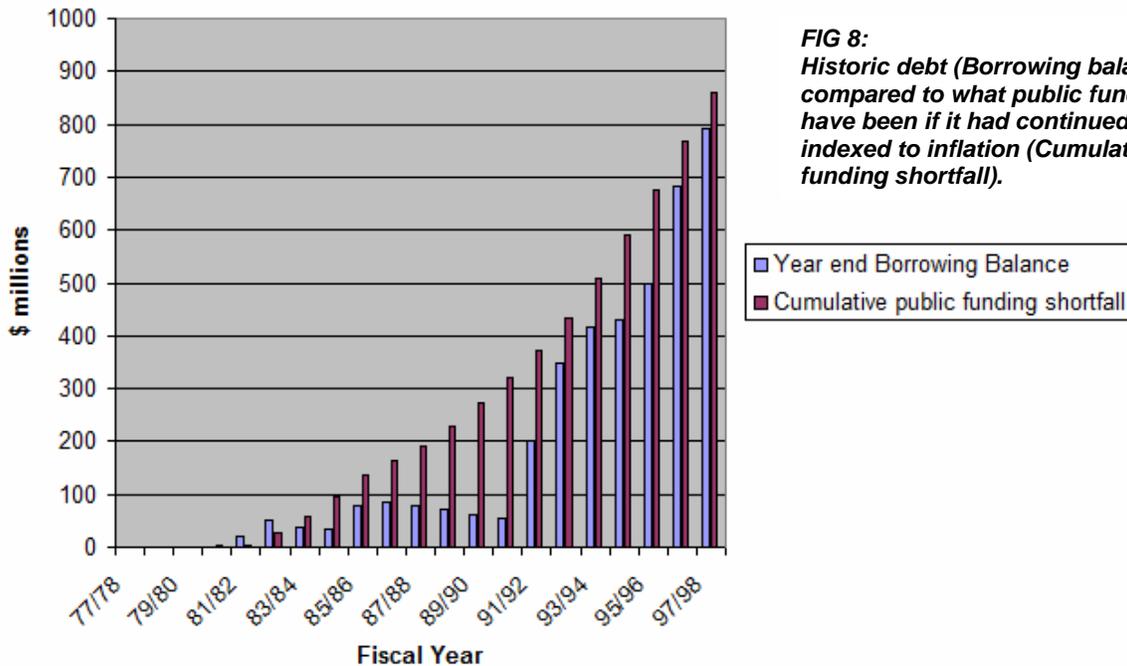


FIG 8: Historic debt (Borrowing balance) compared to what public funding would have been if it had continued to be indexed to inflation (Cumulative public funding shortfall).

But growing debt was not the only consequence of public underfunding. It also meant that necessary care wasn't given to ferry infrastructure. When provincial funding began to lag behind inflation in 1982, the average age of the fleet was 15 years. At the end of 2001, it was 28 years and three-quarters of the vessels were in the last quarter of their lives. (Wright p.21)

The age of the fleet, the need to upgrade terminals, the need to upgrade information technology, and other deferred upgrading and renewal, was likely very much in the minds of provincial government decision makers as they were deciding on the fate of the corporation in 2002. Massive spending would be needed to catch up on the replacement and renewal needed to keep coastal ferry service safe and sustainable.

When the provincial government decided to turn the crown corporation into a regular corporation the responsibility for that massive spending was transferred from the provincial government to ferry users.

After years of being hammered by high fuel costs unbuffered by government support (which was extended to other government transportation such as inland ferries), ferry users cannot afford to pay also for the cost of more new boats and terminals.

6. Treating coastal ferries like other provincial transportation will eliminate the crisis.

In restructuring coastal ferry service, government chose to decrease the level of public funding over time. The government never provided a rationale for why it chose to do that. On the face of it, there appears to be no rationale for government's decision.

Every form of transportation in British Columbia requires government support:

- roads
- bridges
- airports
- transit
- inland ferries.

Many factors go into determining what is an acceptable level of public investment in each transportation mode, including factors that may be unique to that mode of transportation.

In theory, the ideal public investment is the minimum needed to sustain economic and community development that benefits British Columbia, to the degree that costs exceed what is reasonable for individuals or individual communities to bear. In practice, it often consists of increases to a baseline according to forces and trends at play at any given moment.

Figure 9 is a compilation of indicators of provincial trends related to provincial transportation during the period of the economic downturn, 2007-2012. They show that BC Ferries trends are out of step with the other trends related to provincial transportation

Population	
<i>Greater Vancouver</i>	<i>Vancouver Island</i>
2006: 2,116,581	721,758
2011: 2,313,328	747,281
+9%	+4%
Household income	
<i>Vancouver</i>	<i>Victoria</i>
2006: \$66,360	\$74,730
2011: \$68,970	\$79,350
+4%	+6%
BC Consumer Price Index (CPI)	
2008-2012: <i>All items: +4%</i> <i>Transportation: +5%</i>	
BC Sales of vehicle fuel [Consider carbon tax, more fuel-efficient vehicles, US fuel purchase]	
2008: 4,467,255 litres	
2012: 4,348,707 litres	
-3%	
Victoria Airport	
<i>Passenger traffic</i>	
2007: 1,481,606	
2012: 1,506,576	
+2%	
BC Transit	
<i>Passenger traffic</i>	
2007: 44.7 million	
2012: 47.3 million	
+6%	
Coquihalla	
<i>Vehicle traffic</i>	<i>Toll</i>
2007: 2,716,527	\$10
2012: 3,897,472	\$0
+ 44%	- 100%
BC Ferries – Major routes	
<i>Vehicle traffic</i>	<i>Fares (car and driver Vancouver - Vancouver Island)</i>
2007: 4,558,529	\$44.50
2012: 4,219,562	\$66.25
-7%	+50%
BC Ferries – Minor routes	
<i>Vehicle traffic</i>	<i>Fares (car and driver Vancouver Island - Hornby Island)</i>
2007: 3,693,577	\$39.22
2012: 3,383,538	\$65.20
-7%	+66%

FIG 9: Trends related to provincial transportation during the period of the economic downturn, 2007-2012. (Data: StatCan, BC Stats, Destination BC, BC Transit, BC Ferries)

While each transportation mode has its own characteristics, some comparison is instructive.

Consider BC Transit from FY2004 to FY2014. In this period, it has seen capacity expanded by 39%, and ridership increased by 32%, funded by an increase in its provincial grant of 95%.

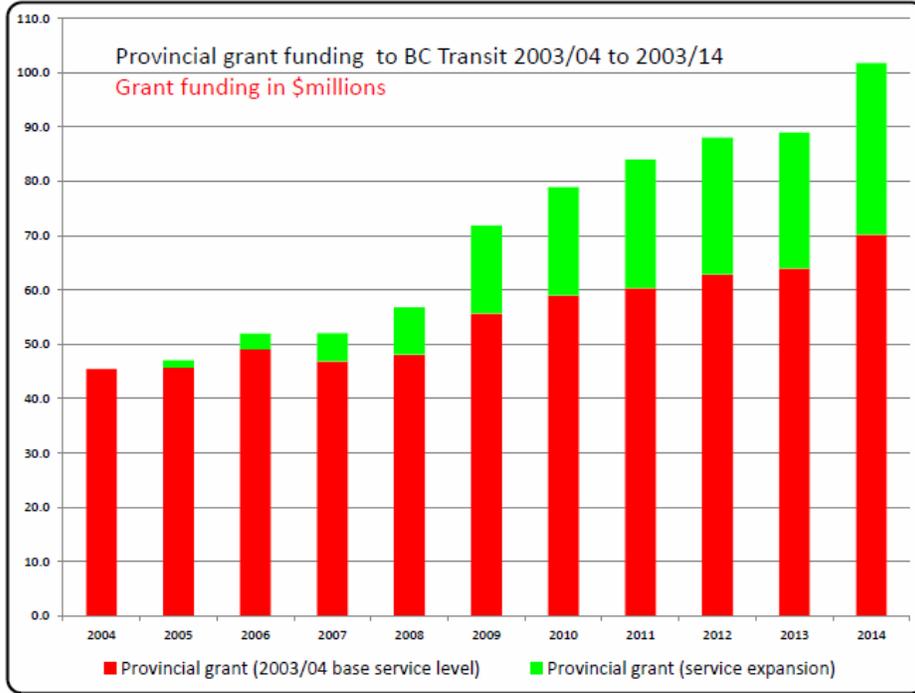


FIG 10:
Provincial funding for BC Transit, FY2004-FY2014. (Data: BC Transit annual reports)

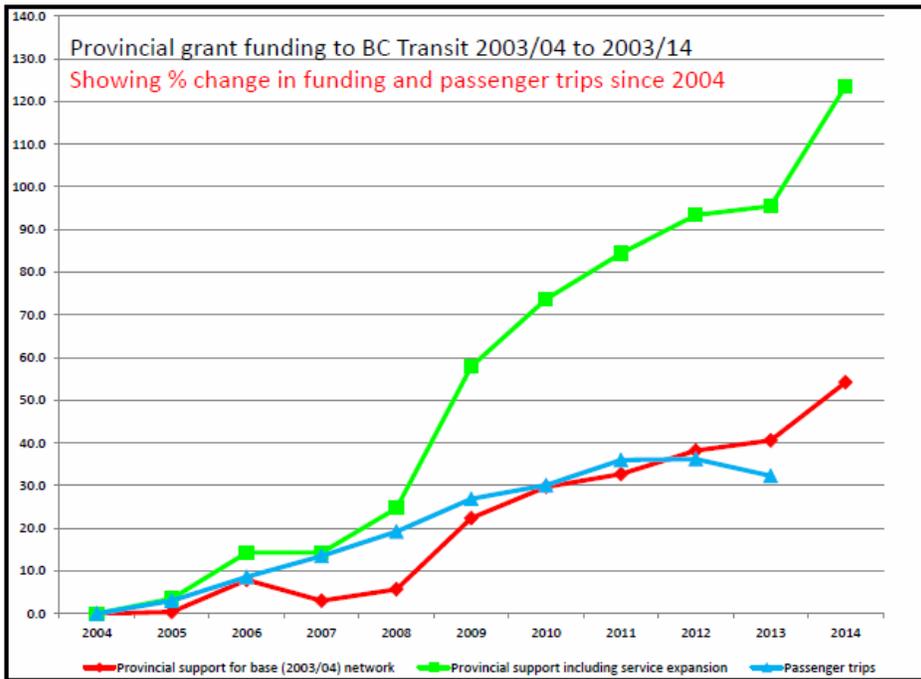


FIG 11:
Percentage change in provincial funding for BC Transit and percentage change in ridership. FY2004-FY2014. (Data: BC Transit annual reports)

We support adequate public funding for transit and expansion of transit, on the grounds that it is good public policy, both to meet people's travel needs at an affordable cost, and to encourage migration from private vehicles. We accept that the growth process involves funding to mitigate fare increases, and occasional periods of decreasing capacity utilization, as has happened with BC Transit given its 39% increase in capacity and 32% increase in passengers.

What we don't understand is why these considerations and practices are not applied to coastal ferries, where capacity is being cut and funding throttled. We believe there are equally solid policy reasons to support public funding for coastal ferries, as it would support economic and community development in dozens of communities, and tourism even in the interior.

We ask the provincial government to provide a clear rationale for the distinction.

If there were no distinction, and the government were to have pegged its funding on an analysis of benefits to British Columbia of affordable ferry service, and if it were to have indexed its funding to inflation, there would be no shortfall, no ferry crisis.

7. There is no silver bullet; ferries cost what they cost and it's a deal for taxpayers.

Considering the traffic volumes carried (20 million people, 9 million vehicles), number of routes (25), length of the coast and distances between communities, and the decades-long backlog of capital spending, the provincial government gets good value for its money with coastal ferries.

This is confirmed by numerous reviews that describe the company as well managed. The company's operations and capital expenditures get additional scrutiny from the BC Ferry Commission, which has ordered various rounds of operational efficiencies. Between Commission-ordered tightening and voluntary tightening, BC Ferries has been cutting costs since at least 2008, when it instituted a wave of layoffs.

In our experience as liaisons between BC Ferries and our communities we do not see many examples of overstaffing or wasted resources. Even FAC/FACC liaison processes have been streamlined to minimize costs. The few high-profile and contentious expenses that receive great public attention could justifiably be examined as statements of corporate culture, but they are not a path for solving funding issues. Once the latest round of efficiencies is complete there will have been so much cost-cutting at BC Ferries that we expect there will be very little fat left in the system.

Since our first encounters with provincial officials involved with ferries, we have been aware of a desire on the part of the provincial government to find a "silver bullet" that will minimize the expense of coastal ferry service. There is no such thing. We ask the government to accept this: to accept that it has a good deal for its money, and that it is reasonable to pay more in order to make it affordable for users.

Our complex coastline creates transportation challenges, but it brings many benefits to BC as well. It's all part of the package that needs to be accepted.

Capacity utilization

Much has been made of capacity utilization as a rationale for cutting service and reducing costs. While we agree that it makes sense to look for all possible efficiencies, we also note that most discussions of capacity utilization contain many misapprehensions.

Government and public understanding of capacity utilization depend largely on information provided by BC Ferries and statements by BC Ferries personnel. During the course of last year's service consultation, several of us shared with BC Ferries, and in some cases with Ministry of Transportation representatives, shortcomings in the methods of capturing, recording and analyzing capacity utilization data. In most cases the data quirks under-represent utilization, at times significantly.

To accurately understand capacity utilization, it is important also to accurately represent both the supply and demand sides of the utilization equation. Non-major routes typically have lower utilization than major routes. The significant difference is in the supply side. The major routes have multiple vessels of various capacities that can be put into use as demand varies. Only vessels in service are used in capacity utilization calculations. Those that are idle are ignored.

By contrast, minor routes usually have only one available vessel, which is made to serve at all times in all seasons, with the full range of demand that entails. It often results in undercapacity at peak times and overcapacity in slow periods. On some routes low utilization is endemic because the vessel assigned to the route is not a good match for the demand on the route, usually erring on the side of supplying too much capacity.

Thus the reported higher capacity utilization on the major routes is a result of flexible supply, and is overstated with respect to total potential capacity availability. The reported lower capacity utilization on most minor routes is a result of rigid and in some cases inappropriate supply.

Even more problematic are capacity utilization comparisons between different transportation modes. The often quoted 80% utilization for airplanes is even more skewed relative to ferries. Not only do airlines have a range of available craft, they also have the flexibility to cancel or reschedule flights as needed to maximize their utilization.

It is not possible with current coastal ferry situation, especially on the minor routes, to substantially improve capacity utilization without also building an unacceptably expensive level of redundancy, and without changes to the contract between the government and BC Ferries.

8. A vision for ferries starts with a vision for coastal communities.

When the provincial government launched its community consultation on ferry service last year, it asked people what strategies should be pursued to achieve a long-term vision of connecting coastal communities. This question confused and frustrated people, coming as it did with very specific questions related to ways to cut service. It was the equivalent of asking people's advice on strategy at the same time as asking specific questions about tactics. The tactical questions cannot be answered at all without assumptions, implicit or explicit, about big-picture strategy.

Many of the comments and answers heard and submitted during the service consultations echo comments made a year earlier to the BC Ferry Commissioner during his review of the system. He identified these comments as representative of what he heard (Commission p.32):

- Affordability is the key interest of ferry users. Ferry fares affect every aspect of life in communities that depend on ferry service. They affect the cost of all goods and services coming into the communities or being exported from the community, the level of tourism which is a key economic driver and the ability to access work and services outside the community.
- Ferry fares are no longer affordable and are impacting people's ability to travel frequently to visit family or friends or take vacations.
- The rise in ferry fares is a significant factor in the decline of passenger and vehicle traffic on BC Ferries.

- The vision of hiking fares in order to reduce the pressure on the government might have seemed reasonable at one time. Unfortunately there was no mechanism in place to measure the impact of that vision.
- The coastal ferry system should be treated as an extension of the highways system and supported by the taxpayer.
- Inland ferries are free and to treat coastal ferries differently is unfair.

The provincial government seems narrowly focused on its interpretation of financial sustainability of the ferry system and keeping BC Ferries viable. There appears to be little awareness let alone consideration of how ferry sustainability is intimately integrated with community sustainability. The two cannot be separated.

A core goal of public investment in any transportation is to meet the long-term needs and aspirations of the communities it serves. Sustainability must be considered from the perspective of the affected communities and their integration with the rest of the province.

A recent discussion paper widely distributed to provincial and coastal regional governments (Hodgkins 2013) highlights the urgent necessity for a needs-based analysis of ferry-dependent communities. The paper notes that at no stage has any assurance been given that the government will investigate the actual needs and dependencies of coastal communities as part of their decision-making process (Hodgkins, p.3). The paper concludes that a needs assessment is necessary to ensure economic sustainability of the region as well as financial stability for the operator. (Hodgkins p.2) Again, the two are interdependent.

The small tactical questions and the narrow focus of the provincial government's quest for a ferry vision pre-empt questions about the point of ferry service. But the starting point for a vision is clear: ferries are supposed to serve communities.

In order to develop a long-term vision for that service, we need to hear what is the provincial government's vision for our communities and their needs, and whether our communities have a place in the government's vision for jobs and growth.

Data note

The graphs and tables in this report use data from the sources identified in the captions. The calculations, assumptions and analyses are our own.

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