‘More User Pay’, Then and Now

> *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.* Bill 18 - 2003, the *Coastal Ferry Act*, Section 38 (1) (f)

The preceding clause was a founding principle of the *Coastal Ferry Act* in 2003. The language was subsequently removed in the revised law – the *Coastal Ferry Amendment Act, 2012.*

The question thus arises: Now that the language requiring more user pay has been removed from the legislation, where does the principle stand?

The answer is in the fare cap for the current 4-year contract term, Performance Term 3 (PT3), with respect to user and government funding contributions.

A quick refresher . . .

The government set aside the preliminary PT3 fare cap decision (4.15% for the majors, 8.23% for the non-majors), legislating a 4.15% fare cap for the whole system for the first year (FY2013), with the Commission to determine fare caps for the remaining three years of PT3. Fare caps are determined by BCFerries declaring their revenue needs, the government deciding how much its prepared to contribute and the Commissioner then setting the ‘fare increase caps’ to provide the rest of the funding from user fares.

The subsequent PT3 fare cap decision required four elements, in order that the ferry system should be ‘sustainable’. The dollar amounts referred to below are shown in attachment 1.

1. BCF would need to find an additional $15M in internal efficiencies, to be realized over PT3.
2. Service cuts need to be implemented to find savings of $30M over the four years.
3. As agreed by government, the Ministry would contribute an additional:
    a. $21.5M in FY2013,
    b. $10.5M in FY2014,
    c. $11.0M in FY2015,
    d. $11.5M in FY2016.

    These would be non-cumulative, totaling $54.5M over PT3.
4. The fare increase caps, and their yield, would be:
    a. 4.15% in FY2013, yielding $19.0M over FY2012 level,
    b. 4.10% in FY2014, yielding $38.5M over FY2012 level,
    c. 4.00% in FY2015, yielding $58.3M over FY2012 level,
    d. 3.90% in FY2016, yielding $78.4M over FY2012 level.

We understand the fare caps were calculated by assuming BCF traffic would remain constant at FY2012 levels and that the average fare would match the fare cap. The ‘average fare’ is based on the anticipated overall mix of fares. If the

mix shifts to a higher proportion of passenger fares vs vehicle fares or experience card fares vs cash fares, the average fare will drop below the fare cap. This is a problem because, if that happens, BCF can legally increase fares above the notional fare cap to close the gap. Conversely, if the shift goes in the opposite direction, BCF is obliged to lower fares ie the Coast Saver program, to get under the fare cap.

Had everything gone as planned;

- The provincial government would have contributed an additional $54.5M in service fees over the four years.
- The users would have contributed an additional $194.2M in tariff fees (fares) over the same period.

Thus, even with the 'more user pay' words removed from the legislation, the user pay policy appears to be alive and well.

End of refresher. Now down to business . . .

That was the plan. So what's happened in the course of FY2013? What does the picture look like a year into the plan?

1. We're advised that BCF has found additional efficiencies to total $15M, perhaps more, over the four years.
2. BCF cut some service on the major routes, amounting to $4M over PT3. Government delayed implementation of further service cuts until April 2014. As a result the cuts target was adjusted to $18.9M, down from $26M, and the government increased the service fee for FY2014 by a corresponding $7.1M, to compensate BCF for having to hold off on anticipated service cuts.
3. The service fee schedule remains as planned but with the addition of the $7.1M in FY2014, raising the total PT3 increase over FY2012 level from $54.5M to $61.6M.
4. Fares increased as per the cap. However, FY2013 vehicle traffic fell 1.14% while passenger traffic declined 1.24%. As well, the average fare dropped about 1% below the fare cap. See attachment 3. Assuming traffic for FY2014, FY2015 and FY2016 will now be level at FY2013 levels, the existing fare caps will yield the following revenue, as summarized here and illustrated in attachment 2.
    a) 4.15% in FY2013, known to yield $13.3M over FY2012 level,
    b) 4.10% in FY2014, yielding $33.2M over FY2012 level,
    c) 4.00% in FY2015, yielding $53.3M over FY2012 level
    d) 3.90% in FY2016, yielding $73.8M over FY2012 level

So, now we have this breakdown:

- The provincial government contributes an additional $61.6M in service fees over the four years.
- The users contribute an additional $173.6M in tariff fees (fares) over the same period.

Again, this assumes traffic remains at FY2013 level, and the gap between fare cap and actual average fare doesn't increase. Both assumptions are optimistic. Very optimistic in light of current trends. See attachments 3, 4, 5.

In the event that the assumptions do pan out, the tariff revenue increase would total $173.6M, or $20.5M less than the $194.1M forecast a year ago. That's probably the very best case scenario.

This $20.5M shortfall is money the system needs and government apparently isn't planning to make up the shortfall. So, what does this mean?

Already a year ago, it was evident that users were seeing much stiffer increases over PT3 than the government was: $194.1M vs the one-time injections totaling $54.1M. That, and the user fare was ramping upward, setting the starting point for PT4 fares 17% higher than that for PT3. Meanwhile, the government's baseline service fee remains as it was in FY2012. Government may choose to make further adjustments, but shows no signs of planning to do so.

Again, even under the most favourable conditions, there likely will be $20.5M less tariff revenue over the four years than forecast just a year ago. If traffic continues to drop and the gap between average fare and fare cap continues to grow – both are happening – then the tariff revenue gap will increase even more.

So? If the trends continue, what are the available options?

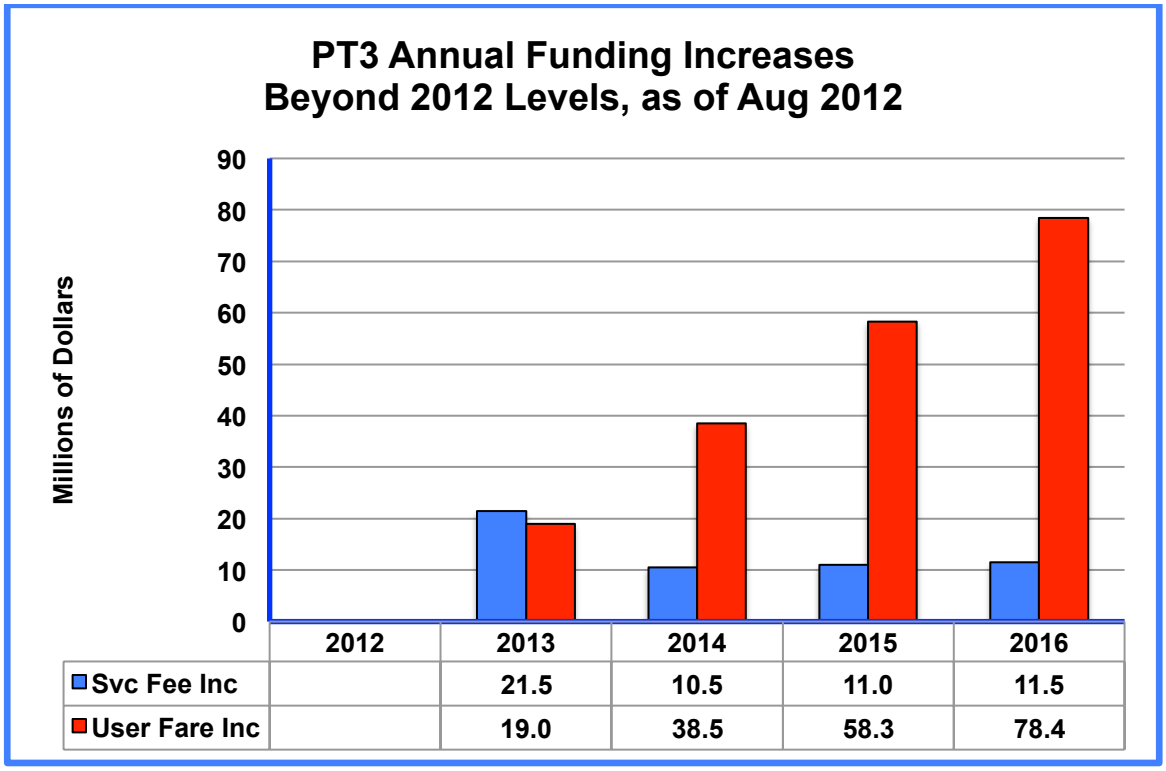
- BCF will watch their profit shrinking (and maybe turning into a loss).
- BCF will find additional internal savings to make up for the lost revenue.
- BCF may increase fares above the notional fare caps to close the gap between average fare and the fare cap.

There is no indication the government is about to alter their contribution plans. At least not before it becomes a rescue operation, as with the after-the-fact $25M contribution in FY2012 after the year had closed.

While not overtly stated, we can only conclude 'more user pay' remains a fundamental element of the provincial government policy toward coastal ferry users and their communities. The inescapable consequences are continuing traffic losses and tariff revenue shortfalls.

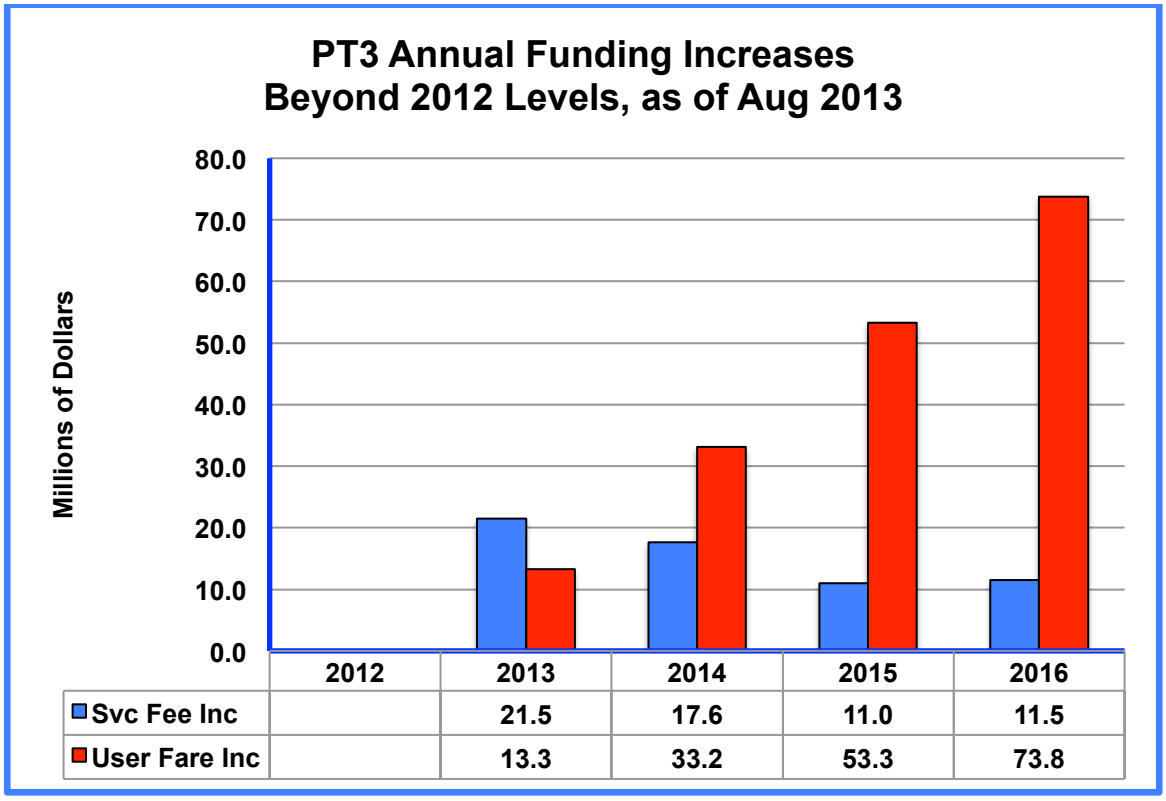
NOTE: the input data here is from BCF reports to the Commission and the current fare cap decision. Interpretation of the data, including any mistakes or flaky assumptions, is my own. There has been no validation of the preceding data or assumptions by the Commission. The Deputy Commissioner has advised me they choose to not engage in discussions relating to the detail of completed fare cap determinations. bh 130904

Attach. 1: PT3 Tariff and Service Fee Increase Forecasts, as of Aug 2012



	2012	2013	2014	2015	2016
Svc Fee Inc		21.5	10.5	11.0	11.5
User Fare Inc		19.0	38.5	58.3	78.4

Attach. 2: PT3 Tariff and Service Fee Increase Forecasts, as of Aug 2013



	2012	2013	2014	2015	2016
Svc Fee Inc		21.5	17.6	11.0	11.5
User Fare Inc		13.3	33.2	53.3	73.8

Attach. 3: Fare Cap vs Average Fares

BCFerries

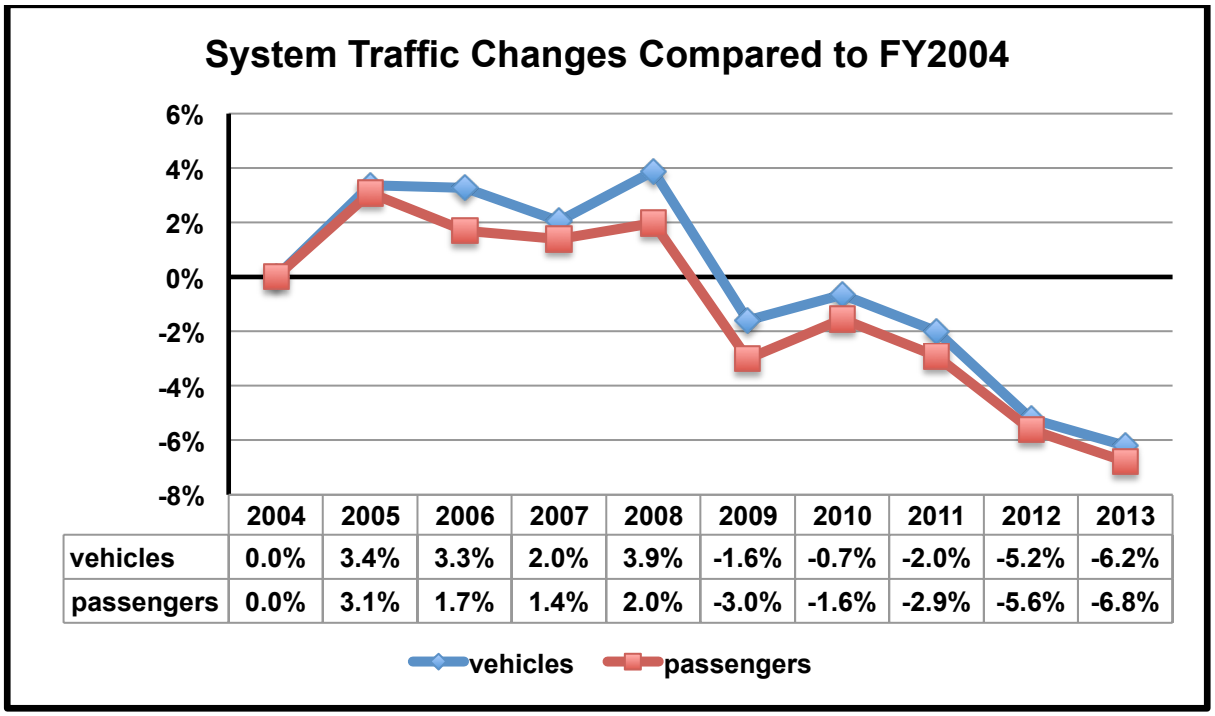
Average Fare Index Summary

Route Group		Jun/2011	Sep/2011	Dec/2011	Mar/2012 (PT2)	Mar/2012 (PT3)	Jun/2012	Sep/2012	Dec/2012	Mar/2013
New Majors										
	Cap	143.16	144.80	145.87	146.74	100.00	101.02	102.45	103.37	104.15
	Actual	142.20	144.39	145.68	147.78	100.00	100.54	101.85	102.75	103.40
Route 3										
	Cap	165.14	168.69	171.11	173.22					
	Actual	158.48	160.07	162.00	163.71					
Northern										
	Cap	169.76	176.27	177.34	178.30	100.00	100.98	103.31	103.76	104.15
	Actual	162.08	164.34	165.76	166.04	100.00	99.51	99.78	99.76	99.84
Minors										
	Cap	171.95	175.82	178.26	180.39	100.00	101.06	102.46	103.36	104.15
	Actual	166.20	167.71	169.69	171.57	100.00	100.65	101.70	102.42	103.23

Price cap and weighted average fare indices are calculated in accordance with Commission orders 05-01 and 11-03.

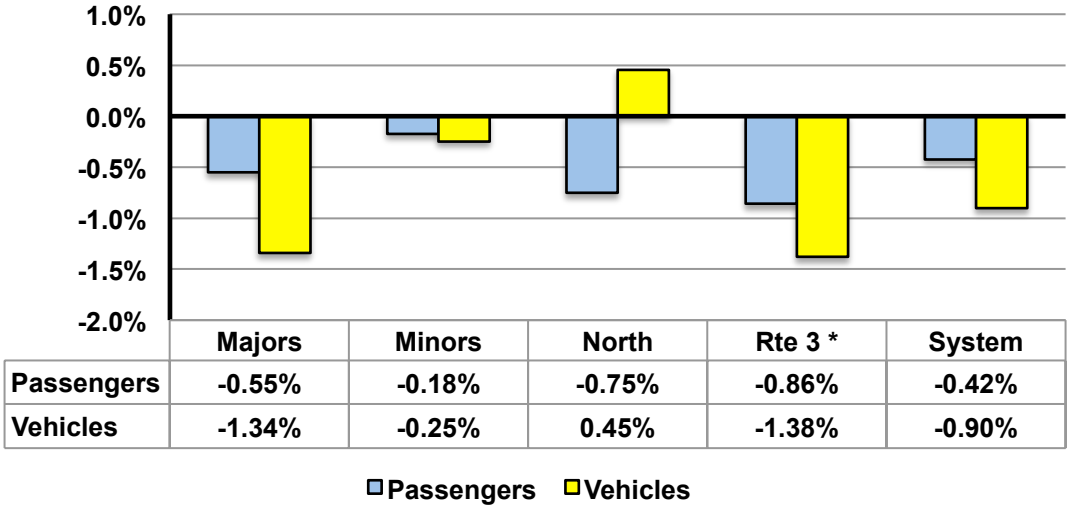
Annual price cap increases are the same for all route groups but may differ on a quarterly basis as they are phased in based on seasonality of traffic flows and revenues for each route group.

Attach. 4: Traffic Change Since FY2004



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
vehicles	0.0%	3.4%	3.3%	2.0%	3.9%	-1.6%	-0.7%	-2.0%	-5.2%	-6.2%
passengers	0.0%	3.1%	1.7%	1.4%	2.0%	-3.0%	-1.6%	-2.9%	-5.6%	-6.8%

Attach. 5: Current Year to Date Traffic Change



	Majors	Minors	North	Rte 3 *	System
Passengers	-0.55%	-0.18%	-0.75%	-0.86%	-0.42%
Vehicles	-1.34%	-0.25%	0.45%	-1.38%	-0.90%