Reprint

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Auditor General mulls ferries' review ~ Patrick Brown

Following a detailed submission from the BC Ferry and Marine Workers' Union (BCFMWU), the Provincial Auditor General, Wayne Strelioff, may be considering an audit of BC Ferries Services Inc and the entire structure that links it to the provincial government, set up under the *Coastal Ferries Act*.

The Auditor's historical oversight of the provincial ferry system was ended by the *Act*, which specifically barred him from any review on the basis that the new company was a private company. However, the BCFMWU submission argues that, because of the structure set up by the *Act*, the various agreements made between the government, the Ferry Authority, and the company, and bearing in mind subsequent transactions involved in refinancing the new company, the BC taxpayer is clearly still responsible for the company's debts.

BCFMWU also makes the point that the provincial auditor quite properly should be concerned with the expenditure of an annual provincial subsidy of over $100,000,000 annually.

David Gray, co-founder of the 'Save Our Ferries' campaign headed by the union, makes several points to Mr. Strelioff: 'BC Ferries shares are owned by the Crown. The bulk of the asset value of the former Crown Corporation is now available for use by BCFS, through its bond issue. With all of these links to government, combined with the ability of BCFS to negatively impact the value of the taxpayers' asset that is BC Ferries and its infrastructure, it seems reasonable and within your mandate to require ongoing scrutiny, an event we would see as both positive and constructive towards ensuring the success of BC Ferries and protection of public interest.'

The Case for Provincial Oversight

The report 'BC Ferry Services Inc. and Provincial Liabilities' was prepared for the BCFMWU by Nelle Maxey of Powell River. Using publicly available documents, it traces the transactions involved in the creation of BC Ferry Services Inc, establishes its ownership, summarizes the financing and debt load of the company, and lists the liabilities and risks undertaken by the provincial taxpayer. Ms Maxey comments early in her report that some of these documents are effectively hidden on the Canadian securities website (sedar.com), and that another, which describes the formation of the new company, is no longer available on the BCFS website.

The Start Up Deal

There is a description of the start-up transactions in the 02/03 BC Ferry Corporation Annual Report. Ms Maxey provides a brief summary:

'... what happened was legislated by the Province and was highly unusual. In order to redeem 100% of the outstanding shares of the Crown Corporation being held by the Minister of Finance, the new company needed cash. So it mortgaged the assets it had just been given by the Province back to the Province for the amount of $428 million. Then it reorganized its shares, selling 75,477 shares to the Province. The Province also gave the new company $1,000 to buy one common share.

'If only other 'independent' businesses could get such a great start-up deal. In effect, the taxpayers of the Province funded the deal to transfer ownership of their assets at little benefit to themselves, even paying off the $40 million deficit to find themselves owners of a company which had gone from over $500 million in shareholder equity to just $75 million in equity. . . .

'But this is peanuts when compared with the value of the Crown Corporation which was essentially given away. This deal was further complicated when the assets were again mortgaged to the Banking Consortium to secure the $500 million bond offerings which were then used to pay off the mortgage held by the Province. At the same time the company established a large line of credit. These unusual transactions can only be attributed to the fact that the company was a public transportation service, a service that had been declared an essential service by the Province, a service that was a regulated monopoly, and a service in which the Province had a unique interest and powers as follows:

'1) Province holds all but one share of the company.

'2) Province has contracted to pay over $100 million in annual revenue to the company.

'3) Province appoints 2 of the Directors of the new Ferry Authority and BCFS.

'4) Province retains ownership of the lands, terminals and marine structures.

'5) Province holds unusual powers and makes certain guarantees. . . .'

(As noted in #4, the Province took ownership of the terminals, valued at some $250 million. When the provincial

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mortgage had been paid off, it would appear that the provincial government, in addition to 'privatizing' the company, had relieved it of nearly three-quarters of a billion dollars.)

Who Owns BC Ferry Services Inc?

The Province owns all the preferred shares, and without its consent, BCFS may not amend its articles, carry out any share transactions, or sell, lease, or otherwise dispose of all or substantially all of its property or assets.

The BCFMWU report says 'The Province is an owner as it has purchased shares and does in fact receive the only dividends from the company. Although it does not have voting privileges, it has a unique position of determining the course of the company as evidenced not only by share ownership and by appointing Directors to the Board, but also by the exercise of limiting the actions of the company....'

Having established who owns the company, the report then goes on to establish who controls the company: again, the Province, through provision of extensive tax dollar subsidies, and pass through of federal subsidies, totalling at present some $131 million annually. The Auditor General, says the report, should maintain effective scrutiny over how these tax dollars are being spent.

The Company's Debt

The BCFMWU report also points out that the debt of the company has increased fourfold since it was a Crown Corporation, mainly to pay off the Province.

The report establishes that the various agreements between the Province and BCFS make it clear that, should the company be unable to carry the debt, the government would have little choice but to cover it. The banks also appear to have set limits on the company's total indebtedness; these limits depend on government involvement in ownership.

(It is not noted in the report, but it would appear that the three new 'Super-C' vessels will be financed until completion by the German yard building them, backed by the German government. This means that the liability that is being incurred by BCFS will not show on the books until the ships are delivered, at which point more money will have to be borrowed to pay for them, and fares may have to be increased to make the payments.)

More Taxpayer Risk

The report points out that, under the *Coastal Ferries Act*, cross subsidies from major to minor routes are supposed to be phased out by March 31, 2008. Recent reports from BC Ferries indicate that, with substantial fare increases over the past three years, this has in fact already been accomplished. The question remains whether the 4.4% increases typical of minor routes during the last few years continue to be justified.

Traffic Down?

A recent memo from BCFS CEO David Hahn indicated that traffic was down in October, 2005 by 6.6% of vehicles and 7.6% of passengers compared to 2004, mostly on the normally moneymaking major routes. Hahn indicated that should this continue, costs would need to be cut. However, no further memos of this type have since been issued.

The cause of traffic decline was cited as high gasoline prices and confusion over US passport regulations; no mention was made of ferry fares, surcharges, etc. Yet previous studies done for BC Ferries indicated clearly that there would be a decline in traffic as fares rose, and that the 'tipping point' was close.

The annual increases over the last few years, plus the fuel surcharges, may well have contributed to this decline in traffic. It may be time for the taxpayers to increase their support for the ferries, or the tourist-based economy of Vancouver Island could suffer noticeably this year.

BC Ferries has implemented discounted fares this month for passengers, cars and, most recently, a 50% cut in fares for trucks. No explanation has been given for these sudden and unexpected moves. ✐

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