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BC Ferries: report shows opportunities foregone - Patrick Brown

Since 2003, BC's coastal ferry system has been managed for profitability and fares set for cost recovery. Fare increases have been consistently in excess of cost of living increases. This may have been good for the corporation's bottom line, but resulted in a foregone opportunity to maintain and stimulate economic activity on the coast and enhance government tax revenue. The loss to the coastal economy over ten years totals $2.3 billion.

That's the conclusion of a socioeconomic impact report prepared for the Union of BC Municipalities and the Association of Vancouver Island and Coastal Communities by Peter Larose of Larose Research and Strategy.

The report, entitled 'Boatswains to the Bollards', was on the agenda of UBCM's annual Convention in Whistler September 22-26, 2014, with the recommendation that the UBCM membership endorse the following actions:

• request that the Province reverse its November 2013 decision, and restore service levels and ferry fares to 2013 levels;

• request that the Province take a 'pause' or 'time out' to consider the results of this socioeconomic impact assessment and commit to undertaking further socioeconomic impact analysis that will build on these findings;

• request that the Province take action to recognize the coastal ferry system as an extension of the highway system and administer and fund it accordingly; and

• request that the Province work co-operatively with coastal communities and other interested parties on the development and implementation of a long-term strategy for the coastal ferry system, based on solid socioeconomic impact analysis, that will ensure the sustainability of coastal communities and the ferry service.

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Indicator of Dwindling Economy

In fact, the declining ridership resulting from continuing fare increases is just one of several indicators of the dwindling economy of ferry dependent communities.

Business incorporations, real estate prices, total assessed property values, housing starts—all are coastal community growth indicators which fail to match the performance of mainland communities over the last ten years, and particularly in recovery from the 2008–2013 recession.

The report compares the actual performance of the coastal economy compared with what would have happened had fare increases from 2003 to 2013 been held to the increases in the cost of living:

• ferry ridership, which declined by 9.2%, would have increased by 18.7%, a difference of 28.8%. The 18.7% increase is roughly equivalent to the growth in highway travel in BC over the 2003–2013 period;

• spending by ferry travellers from 2003—2013 would have been higher by $2.3 billion;

• coastal GDP 2003-2013 would have been higher by $2.3 billion; and

• Taxes to all levels of government 2003-2013 would have been $609 million more.

'It is difficult to see how the present policy of increasing ferry fares while reducing ferry service will enable the achievement of the provincial government's announced goal of an affordable, efficient, and sustainable system,' says the UBCM. It further notes that 'all regions of the province are impacted by BC Ferries; whether through the economic activity generated in both coastal and non-coastal communities or from the tax revenues that are returned to all regions of the province by the provincial and federal government(s)'.

BC Ferries, of course, is a formidable economic engine itself. Its corporate value to the annual GDP of the BC economy (2012/13) including direct, indirect, and induced impacts, is estimated at $545 million. Several different methods of calculation of total annual value-added GDP impacts of BC Ferries and its contribution to the economy yield figures in the $1.5–$1.8 billion range. This compares favorably with the GDP contributions of forestry/logging ($1.6 billion), and agriculture ($1.2 billion).

Fares Up, Ridership Down

Over the 2003-2013 period, all routes implemented constant fare increases, with the highest percentages on northern routes, next highest on minor routes, and the lowest percentages on the major routes joining the mainland to southern Vancouver

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All routes experienced a gradual decline in passenger traffic. On northern routes, it was down 23–37%; minor routes, down 5–20%, with southern Gulf Island routes showing the least reductions; and on major routes, down 2–6%. Overall, passenger traffic is about the same as in 1991.

Sensitivity To Fare Increases

Allowing for CPI and GDP growth, the report calculates the sensitivity of travelers on each group of ferry routes to fare increases.

On the northern routes, a 10% increase in fares results in a 5.9% decrease in traffic. Northern route fares are high and a 10% increase in fares makes travel cost-prohibitive for many north coast residents; a decrease in traffic translates into significantly increased losses to BC Ferries.

'Overall, passenger traffic now is about the same as in 1991.'

On the minor routes, a 10% increase in fares results in a 3% decrease in traffic. Minor route traffic is a mixture of necessary and optional travel, since some islands served by minor routes have significant resident populations.

On the major routes, the main connections between Vancouver Island and the mainland, a 10% increase in fares results in an 8.5% decrease in traffic. This figure may be a surprise, but fare increases on major routes have been held down throughout the 2003-2013 period, and so this high degree of passenger sensitivity to fare increases was not evident (and either unknown or denied by BC Ferries).

On all three route groups, overall traffic sensitivity to fare increases is gradually increasing. Sensitivity of users of BC Ferries' 'Experience Cards', regular minor route travellers who get preferential rates, do not seem to be changing; but cash customers, whose travel is probably more discretionary, or utterly unaffordable, are becoming more sensitive to fare price increases.

These sensitivity figures, together with fare proposals for the next couple of years (already authorized by the Ferry Commissioner) permit traffic to be forecast for the next couple of years. The conclusion is no surprise: overall ridership will continue to go down.

Farebox Recovery Highest In BC And Worldwide

'Farebox Recovery' expresses the relationship between total revenue and total operating costs. BC Ferries is not only higher than any publicly supported transportation system in BC, it is higher than comparable ferry systems worldwide. Its farebox recovery rate of 92% could be compared to Metro Vancouver's Translink (51%) and BC Transit (33%). When ancillary revenues (food services, gift shop) are included, BC Ferries' 2012/13 recovery rate is 109%.

Internationally, the New Zealand Interislander recovers 77%, Washington State Ferries recovers 66%, Sydney (Australia) 34%, and the Alaska Marine Highway System, 26%.

All these other transportation systems finance their capital costs through government; BC Ferries, as a quasi-private corporation, employs private financing. Adding in the cost of capital (reflecting an ambitious shipbuilding program in the past few years) results in (2012/13) operating costs $524.9 million, cost of capital $207.8 million, total $732.7 million, total revenues $571.4 million: total cost recovery 78.0%.

Taxes—What A Deal; But What A Loss!

Economic activity, of course, yields taxes to various levels of government. These are estimated (2012/13) as federal government $210 million, provincial $150 million, municipal $34.2 million—totaling $394 million annually.

Compare this to the contributions to ferry costs: from the federal government's $27 million and the provincial government's $150 million. The provincial government, in fact, breaks even on their subsidy; and the case can certainly be made for an increase in the federal government contribution.

The reduced economic activity due to ferry fare increases in excess of the cost of living has resulted in a reduced tax yield. Over the ten years 2003-2013, governments collected $609 million less than they could have if fare increases had matched cost-of-living increases to support economic growth in ferry-dependent communities.

Detailed Case Studies

The report contains a number of interesting analyses, in some cases on a detailed route-by-route basis. Passenger counts have consistently declined over the last ten years on every route, with the most severe declines on northern routes Nºs 10, 26, 40, & 11.

Overall passenger traffic, for the entire system, now shows a long, slow deterioration. The reliability and on-time operation of BC Ferries is highlighted; customer satisfaction is very high, with the consistent exception of 'value for money'.

Of particular note is that, over the past ten years, BC Ferries' routes are the only parts of BC's transportation network that have experienced passenger volume declines. All other transportation modes were subject to the same external influences as BC Ferries, including fuel price inflation and the global financial crisis.

Routes Nºs 7, 1, 10, 22, 23, 19, 5, and 3 were chosen for detailed analysis; they show a consistent pattern of results. ✐

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