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Coastal Ferry Service Commentary - Kevin Falcon & Tony Law

The following is a letter (sections in boldface) sent recently by Kevin Falcon, Minister of Transport in reply to several people's emails about the proposed continued steep rise in minor route ferry fares. The paragraphs between are a commentary by Tony Law, chair of the Denman/Hornby Ferry Advisory Committee.

Kevin Falcon: Thank you for your recent e-mail about the rising cost of island and coastal ferry trips in British Columbia. The health and vibrancy of BC's island and coastal communities depend on an affordable ferry service.

Tony Law: The homes, businesses and services of BC's island and coastal communities were developed in the context of affordable ferry service that, in many cases, was operated as part of the province's highway system.

Since the Province adopted a legislated policy of 'moving towards a greater reliance on user pay,' ferry service has now become unaffordable to many residents, businesses and visitors and this is already threatening the social and economic health and vibrancy of these communities.

...That's why I've made sure the provincial government's commitment to these ferry services remains substantial.

From 2003 to 2007 the contribution of the provincial ferry transportation fee as a proportion of total BC Ferries' revenue has declined from 18% to 16%. (Meanwhile, the federal contribution to BC Ferries increases with the rate of inflation.)

...Presently, taxpayers contribute more than \$130 million a year to guarantee service levels for minor, northern and Sunshine Coast ferry routes—a 10% increase over last year.

The service fee paid by the provincial government has remained unchanged since 2003 at \$91.8 million.

On Sept 18 2006, the Minister announced that the contract would be amended for the northern routes only to provide an additional contribution towards northern vessel acquisition because of the tragic loss of the *Queen of the North*.

...My ministry also provided an additional \$5.5 million recently to help defray increased fuel costs.

On March 19, 2007 the Ministry of Transportation announced a one-time-only payment to help eliminate accumulated fuel costs on the northern routes because the fuel surcharges on those routes would not be enough to meet these accumulated costs.

...No other small communities in BC benefit from this degree of sustained transportation funding, whether for highways or ferries, and I'm proud that

we're helping to protect the unique communities and lifestyles on our islands and coasts.

British Columbia is a mountainous, coastal province with many unique communities and lifestyles. Access to BC's communities through mountain terrain and across coastal waters is a challenge. Despite this, successive provincial governments have provided transportation infrastructure in order to support the development and sustainability of local economies, whether they be on the coast, in the mountains or deep in the interior.

Coastal ferry users pay 84.2% of the costs of operating the system, a much higher proportion than is paid by users of Translink, BC Transit or provincial highways.

In the past, the profitable ferry routes cross-subsidised the non-profitable routes. In 2003, the Province legislated an end to this arrangement. It handed over a seriously under-capitalized ferry system to an independent company with the stated intention to 'reduce, over time, the service fee contributions by government.'

...Taxpayers also provide about \$15 million of additional funding annually to keep costs affordable for seniors, students, disabled residents and those travelling for medical reasons.

Social Program Reimbursements are applied throughout the ferry system to keep costs down for seniors and other specified travellers. The majority of this money, \$8.33 million, goes to support travel on the major routes. Only \$7.05 million is applied to the other routes.

...I recognize that, despite this government support, ferry fares represent a major expense for many residents.

In 2003, the Province legislated annual 4.4% increases in the price cap on ferry fares while keeping its own annual contribution unchanged. These cumulative increases, plus fuel surcharges, mean that residents are now facing fares that are up to 65% higher than before this legislation was put in place. Travellers will face even higher annual increases if the Province continues to leave its contribution unchanged.

...There's no way around the fact that coastal ferry services are expensive to provide, especially for low-volume routes. Taxpayers across BC contribute significantly, but the people who live in and love our islands and coasts must share these costs too.

Only coastal travellers contribute to the cost of ferries that provide links in the provincial highway system. The 7.5 million passengers using the non-major coastal ferry routes contribute almost as much as the Province does towards this unprofitable public transportation service. The 3 million

passengers using the 14 inland ferries operated by the Ministry of Transportation ride for free and are not required to make a contribution to their costs.

Coastal ferries are included in 3 of the 9 'highway circle routes' being promoted by the Ministry of Transportation, indicating that the Ministry considers the ferries as part of the provincial highway system.

Residents from other parts of British Columbia are the most frequent users of coastal ferries after local residents.

...The independent British Columbia Ferry Commissioner reviews BC Ferries' spending to make sure that any proposed ferry rate increases are justified. The commissioner concluded that a fare increase is justified and BC Ferries' costs are reasonable.

The British Columbia Ferry Commissioner's statutory role has been to first determine the eligible costs of BC Ferries and then to calculate what the preliminary fares cap would have to be to achieve the revenue required to ensure the financial stability of BC Ferries.

The Commissioner assumed that there would be no increase over the 2003 level of service fee being provided by the Province (other than the northern adjustment). He calculated that annual fare cap increases of 6.7% from 2008 to 2012 would be needed to generate the required revenue if the province does not increase its service fee.

It is now up to the Province to decide how much of the revenue required to meet the eligible costs will come from the government and how much will come from fares. Once the decision is made by the Treasury Board (in the next week or so), the Commissioner will use this information to calculate the final fare cap.

...My ministry is now in negotiations with BC Ferries. You can be sure we will continue to work to maintain a lasting and financially-stable ferry system for our coastal and island communities.

BC Ferries' business plan is based upon increased ferry traffic. However, during the recent period of escalating fares,

ferry utilization has decreased on the minor routes despite a significant increase in population in the region. With no change in the Ministry's position, fares will escalate even more sharply in the years ahead.

BC Ferries' traffic forecasts and its financial planning are in question if the Province does not increase its contribution to allow fares to be stabilized and traffic to recover.

As the Minister mentioned at the beginning of his message, ferry fares must be affordable if the coast is to have lasting and financially-stable communities.

...Again, thanks for taking the time to share your thoughts with me.

Continue to share your thoughts with the Minister and also with the Premier, Minister of Finance and Minister of Tourism. And do it right away. ✉

Whoops!

Minor ferry routes to make a profit

In the *Island Tides* article 'The subsidy tradeoffs' (May 17, 2007), Patrick Brown wrote that BCFS minor routes were not required to make a profit ('Return on Equity'), but only to break even when including the 'Service Fee' (subsidy). Only major routes were required to be profitable.

This turns out to be incorrect. The fare caps calculated by the BC Ferry Commission in their Preliminary Decision on fare increases for Performance Term 2 from 2008-2012, included an allowance for Return on Equity for the minor routes as well as major.

In other words, the minor routes, despite being subsidized, are expected to make a profit, and this is built into the fare increases. Averaged over the four-year term, it accounts for .5% of the 6.7% annual increases.

It is assumed that the minor routes are financed by 5% equity, 95% debt. Interest on the debt portion is charged to each minor route group at 5.75%, and return on the 5% equity portion at 13.2%.