

Coastal Council to BC Ferries

Response to "Review of BC Ferry Corporation
and Alternative Uses for the Fast Ferries"
Report Prepared by Fred R. Wright, FCA
December 2001. By Coastal Council to BC
Ferries, submitted to the Minister of Transport
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1. Executive summary

We welcomed the concept of the Wright report based upon our reading of its Terms of Reference (TOR). We anticipated a comprehensive independent review of BC Ferries Corporation (BCFC) and hoped that the report would give insight into new ways of improving the efficiency and quality of the coastal transportation infrastructure. We hoped for conclusions based upon careful examination of other similar systems. We hoped for groundbreaking recommendations on BCFC's place in a new, integrated, coastal transportation infrastructure.

The report itself provides some useful information and opinion, but in many points resembles previous reports on the system and generally does not provide innovative insight or in depth analysis of other jurisdictions' solutions to problems. Whilst we find that Mr. Wright has made thoughtful and constructive comments in several areas there are others that cause considerable concern and we are of the opinion that this was caused a degree of tunnel vision in the consultant's approach to the ferry system, BCFC and coastal transportation infrastructure.

We have gathered our responses to particular areas of Mr. Wright's report under the main headings of the report's executive summary. In some cases we make specific recommendations that relate to a key future action or actions in these areas. We have limited our response, in general, to the actual report rather than giving input on the areas in the TOR not covered by the report. Quotes in the text that are italicized come from the Wright report or its TOR. "Response:" indicates response by CC.

Section numbering refers to response Table of Contents, "E-" indicates executive summary.

E-2. Comments on report paradigm

Due to the limited paradigm upon which the report is based we are of the opinion that in its financial analysis and in most areas dealing with service and tariff it has reduced value.

E-3. Discussion of Wright Terms of Reference (TOR) and process (report section I - statement of objectives).

The statement of objectives introducing the report does not reflect the TOR, and we are of the opinion that the Wright report fails, in several key areas, to properly address the TOR set by Government.

E-4. Coastal Council Responses to specific Wright recommendations and analysis

A. Fast Ferries (report sections III, IV)

We generally agree with Mr. Wright's report on the Fast Ferry project and find that his opinions echo those well covered in the past. We concur on the importance of the governance issue. We hope that BCFC and the government will ensure the expeditious sale of these unfortunate assets.

B. BC Ferry Corporation (report sections IV (D), V, VI)

(i) Governance (report section IV (D))

Recommendation

We favour development of a new governance model for provision of government supported ferry infrastructure that provides independence with regulatory oversight to ensure that the ferries serve as a transportation utility providing infrastructure for coastal communities and the Province.

[\(ii\) Service Improvement Alternatives \(report section V\)](#)

Recommendation

The place of the ferries as the marine highway system of the coast must not be compromised by changing service delivery methods, just as changes of road management/maintenance would not be contemplated if this would compromise the quality of the Province's land highway infrastructure. Cost efficiency must be improved and examination of alternative service delivery methods should take this into account.

[\(iii\) Financial analysis and Financial Framework \(report section VI\)](#)

We welcome Mr. Wright's comments in areas of flexibility and his clear identification of the cost of government policies. We are of the opinion that many improvements in efficiency and financial performance could be made based on these comments.

In the areas of financial sustainability Mr. Wright appears to have, in some areas, misread the financial picture of BCFC and to have ignored critical financial parameters such as demand elasticity. There are contradictory statements about undercapitalization and profitability. Those only reading the executive summary will be misled by this.

Mr. Wright fails to identify that a key factor in BCFC's poor financial performance, poor capitalization and inefficient financial and operational performance has been the lack of a clear and secure funding base.

We strongly support increased efficiency of service delivery and of ferry/BCFC management systems and believe that large steps in this area can be achieved without degradation of service or non—inflationary tariff increases.

Recommendations

We recommend that government continue the planned funding of the ferry system and, further, index link that funding to ensure continuing sustainability. BCFC, or any other operator, should then be held accountable for efficient execution of its planned budget.

[\(a\) Service and Tariff](#)

We strongly oppose reductions in service levels and increases (beyond reasonable inflationary increases) in the tariff (including in this reductions in discount levels for commuter tickets).

Coastal communities are "ferry dependent", just as other communities are "road dependent". To radically increase tariff or reduce service would be to destroy these communities, together with their economies and their contribution to the Province.

Arbitrary manipulation/assignment of tariff has been one of the factors that damaged BCFC and customer confidence in the past.

Recommendations

We urge the government to allow BCFC to continue with the planned rationalization of tariff, and not to impose arbitrary tariffs. Together with proper, continuing, funding of BCFC this will address BCFC's financial needs.

[\(b\) Pre paid ticket books and social policy discounts](#)

In isolated communities with few or no services available locally these ticket book tariffs represent, for residents, the metric of isolation and would equate to the disproportionate cost to taxpayers of highway access to small landlocked road dependent communities.

Recommendations

We recommend that the stakeholders, BCFC and government continue the planned discussions on rationalization of ticket book pricing rather than government making arbitrary and potentially damaging decisions on tariff.

We recommend that government assign the cost of social policy provisions to relevant ministries.

E-5. Public Infrastructure and highway equivalency-Integrated Marine Transportation

(report section VII).

We agree that "an integrated marine transportation plan" must be developed.

The tourism industry relies heavily on the coastal nature of BC and the contribution of coastal infrastructure to facilitating this industry serves to provide tourism business to many communities not directly ferry dependent. The ferry infrastructure is of benefit to the Provincial economy as a whole, not just to the coast.

Infrastructure is only economically viable when considered within the context of the entire Provincial or regional economy. Mr. Wright's cost analysis is thus compromised by his failure to consider the place of coastal transportation infrastructure in the Provincial economy, at the macro level, and in individual infrastructure dependent communities, at the micro level.

Coastal and Vancouver Island communities are ferry dependent, just as other communities are road dependent. Every community in the Province is, in fact, *infrastructure dependent*. We believe that a key responsibility of government is to provide infrastructure in order to encourage economic growth and sustainability.

Recommendations

We believe that any decisions made about the coastal ferry system must be predicated upon the paradigm of this marine highway being an essential part of the Provincial transportation infrastructure, just as roads are.

If, as Mr. Wright states, responsibility for providing infrastructure is considered by government to be inappropriate for a Crown Corporation, then it would be logical to fix the administrative structure rather than to degrade the infrastructure in a vain attempt to force fit the Crown Corporation model where it is inappropriate.

Decisions on coastal transportation infrastructure must take into consideration the need to bolster community and Provincial economic development and sustainability.

We ask the Provincial Government to make strong representations to the Federal Government encouraging them to devote a large proportion of the Federal gasoline tax collected in BC to the development and maintenance of BC transportation infrastructure, including the marine highway (ferries).

E-6. Conclusion

Key recommendation:

We believe that any decisions made about the coastal ferry system must be based upon a recognition that the marine highway is an essential part of the Provincial transportation infrastructure, just as roads are, and that a key responsibility of government is to provide infrastructure in order to encourage economic growth and sustainability.

E-7. Consultation—Future Steps

Recommendation

In order to ensure effective, independent, stakeholder involvement we recommend that the Coastal Council be expanded to include representatives from other stakeholder bodies and be funded independently. This will pay dividends in effective and responsive planning and in public confidence in the ferry system.

We recommend that a government sponsored summit be held on the BC Ferry system and the marine transportation system as soon as possible .

The Coastal Council would be prepared to be an active participant and also play a leadership role in organizing such an event.

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2. Comments on report paradigm

Whilst we find that Mr. Wright has made thoughtful and constructive comments in several areas there are others that cause considerable concern and we are of the opinion that this was caused a degree of tunnel vision in the consultants approach to BCFC and coastal transportation infrastructure.

The report TOR speak of the need for an unbiased look at service demands and review of assumptions. The report itself, however, seems to take a much more limited approach and neglects many useful lessons to be learned from *"other jurisdictions"*.

In the report the consultant chose to approach BCFC routes based upon a break even (without government funding) "limited corporate" basis, considering cost of running transportation infrastructure as "loss" rather than upon an unbiased approach to BCFC as part of the Provincial transportation infrastructure. This adoption by the consultant of this paradigm is, probably, due to the ferry system being presently operated for the Crown by BCFC as a Crown Corporation. Although the TOR gave considerable latitude to permit more "blue sky" thinking the consultant generally chose, and in the case of financial analysis and comment on tariff and service, particularly chose to address the coastal transportation infrastructure from a narrow view of BCFC as a corporation, rather than as an operator of the infrastructure. Following inevitably from this initial mindset, the objectives developed by the consultant and stated in the report do not adequately reflect the Terms of Reference (see below) in several areas. We find it disappointing that an opportunity for unbiased review and dialogue has been flawed by this type of tunnel vision, particularly when the report is itself examining an example of the dangers of tunnel vision in the past (the Pacific Cats).

It is not of great use to approach a broad examination of BCFC only from this "limited corporate" point of view since it, like the highway system it is an essential part of, exists to provide the, infrastructure that allows the Provincial and local economies to work. Additionally, infrastructure provision is a key responsibility of government. The consultant's approach has thus seriously compromised his cost analyses on the macro and micro levels and also his ability to offer useful comment in the area of tariff and service.

Financial viability, as narrowly defined in the report, cannot be the goal on a route by route basis, and even for the whole corporation financial viability can only be a goal based upon financial input from taxation, what we term "financial sustainability,"--just as is the case with roads.

Due to the limited paradigm upon which the report is based we are of the opinion that in its financial analysis and in most areas dealing with service and tariff it has reduced value.

Please refer to our response section 5 for further discussion of public infrastructure.

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3. Discussion of Wright Terms of Reference (TOR) and process.

This section relates to Mr Wright's statement of objectives in the report's Executive summary (Section I.) and to his comments on TOR components in report section II, "Requests for Public Input".

A. Objectives stated in report

The statement of objectives introducing the report fails to cover several of the key areas of the TOR and yet introduces *"identifying the changes necessary to enable BC Ferries to provide an efficient, customer- focussed ferry service at an acceptable cost to taxpayers."* as an objective even though this was not a stated objective of the TOR.

The report fails to address this objective, in no way establishing what *"an acceptable cost to taxpayers"* is (despite the TOR wording with respect to highway equivalency) or what is meant by *"customer- focussed"*.

As "customers" we users have clear ideas about "customer focussed" service, and that means a stable, affordable and efficient service based upon service requirements of the coastal communities.

The report makes some limited suggestions on efficiency-but mainly concentrates on the easy target of service reduction/tariff increase (which are *not* efficiencies) rather than on the actual operational and management inefficiencies that it could have targeted.

These objective decisions were made, we believe, because the ferry system being presently operated for the Crown by BCFC as a Crown Corporation. Although the TOR gave considerable latitude to permit more "blue sky" thinking the consultant generally chose, and in the case of financial analysis and comment on tariff and service, particularly chose to address the coastal transportation infrastructure from a narrow view of BCFC as a corporation, rather than as an operator of the infrastructure.

B TOR component "Developing an Integrated Marine Transportation Plan"

This was, we feel, one of the more important positive initiatives that could have been addressed by this report. However, Mr. Wright seems to have not made this a priority except in the area of governance.

The report was tasked in the TOR to *"make recommendations on how the corporation can clearly link with the Government's marine transportation strategy"*. This strategy is described in the TOR as *"taking into account highway equivalency, the needs of ferry dependent communities and the corporation's operational efficiency and service objectives"*. The report does not address these issues except for a few unsupported comments.

C TOR component "Service Excellence and Improved Operations"

This seems only to have been addressed from the point of view of cutbacks to service (or, an equivalent, increases to tariff), which would not serve to improve service excellence or efficiency, and might well degrade efficiency through demand elasticity.

Service efficiencies are improvements to the efficiency of operations, not cutbacks to reach an arbitrary cost target. BCFC has planned its service based upon arbitrary budget decisions by governments over the years, and this has not served to improve its efficiency. We looked to this report to see a vision of a future where the transportation infrastructure is planned and funded based upon service requirements and where BCFC or any infrastructure operator is required to meet efficiency targets in its operational and financial planning and implementation in relation to stable and predictable funding and service parameters. The report did not address these areas.

The direction in the TOR to consider methodologies for measuring/predicting long term demands for service/growth does not appear to have been addressed.

D TOR component "Alternative Service Delivery Models"

The report is also weak in this area, certainly not reaching the level of detail the TOR tasked the consultant with. There are no clear examples of methods used in other jurisdictions nor is there any evidence of input/submissions by prospective private operators.

No consideration was given by the consultant to issues of community economic development and tourism.

E Consultation

Relates to report section II, "Request for public input".

For us, as stakeholders, one of the key phrases in the TOR was *"how the Governments policy of open and accountable Government should be incorporated into the Corporation's strategic, operational and capital planning initiatives and its day to day dealings with the Government, taxpayers and ferry users."* Mr. Wright did not undertake any direct consultation with stakeholders in producing his report, nor did he in any way address the successes, failures and structure of the existing stakeholder process or examine those in other jurisdictions. He did not make any recommendations on how future independent stakeholder consultation could be improved.

Good stakeholder relations and consultations have been and will continue to be essential to BCFC and government. We are of the opinion that this should be a priority for the government in reviewing BCFC.

The Coastal Council has membership from a wide range of stakeholder interests (including representation from all local route consultation processes) plus participation provision for BCFC, government and the union. Coastal Council provides a forum for discussion and deliberation on broad ferry issues and offers, free of charge, a think tank that has no parallel in this area.

Recommendation

In order to ensure effective, independent, stakeholder involvement we recommend that the Coastal Council be expanded to include representatives from other stakeholder bodies and be funded independently. This will pay dividends in effective and responsive planning and in public confidence in the ferry system.

F Summary

Practices in other jurisdictions have not been examined (as the TOR directed them to be) in any depth, beyond unsupported comments in a couple of places. This considerably reduces the value of the report. As an example of resources the consultant could have used we append some excerpts from a recent report on Washington State ferry system.

Underlying assumptions (paradigms) are only briefly addressed in relation to the existing situation. The underlying assumptions of the report are clear from reading it. However, other available paradigms are not discussed at all.

The statement of objectives introducing the report does not reflect the TOR, and we are of the opinion that the Wright report fails, in several key areas, to properly address the TOR set by Government.

As such, we are left to wonder what the report cost and on what basis the consultant is paid for such clearly deficient work.

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4. Coastal Council Responses to specific Wright recommendations

and analysis

We have gathered our responses to particular areas of Mr. Wright's report under the main headings of the report's executive summary. In some cases we make specific recommendations that relate to a key future action or actions in these areas.

We are keen to discuss these issues further in depth with government. This transportation infrastructure is essential to the survival of our communities and to the economic life of the Province and we take this review very seriously.

We would be interested in participating in research and discussion of those areas from the TOR for this report that the report did not adequately address. We have limited our response, in general, to the actual report rather than giving input on the areas in the TOR not covered by the report.

A. Fast Ferries

This section relates to the parts of the report dealing with fast ferries issues - Report section III and IV. We comment on report section IV (D) below under our comments section 4 (B) (i).

Wright Recommendation

"Given the very limited market for the PacifiCats, the sale process can be expected to take up to two years. Accordingly, we recommend that the present sales process continue."

Response:

We generally agree with Mr. Wright's report on the Fast Ferry project and find that his opinions echo those well covered in the past. We concur on the importance of the governance issue. We hope that BCFC and the government will ensure the expeditious sale of these unfortunate assets.

B. BC Ferry Corporation

This section deals with the report as it comments on BCFC and ferry service, report section IV (D)-Governance, report section V-Service improvement alternatives, report section VI-Review of BCFC.

(i) Governance

Wright Recommendation

"We recommend that the Province amend the BC Ferries enabling legislation to vest its powers in an independent board of directors with responsibility for governing, exempt from political and bureaucratic interference. Under this model, BC Ferries would receive a clear mandate and understanding of the Province's expectations and would annually present its business plan, through the Minister of Transportation, to the Legislature and would report quarterly on the results of its operations."

Response:

The concept of independence in governance is essential to the ferry service being run successfully as a transportation utility in the future. Many past problems (including the large debt that BCFC was carrying) were due to ill planned governmental interference and erratic government funding. It is possible that the corporate model is not appropriate for provision of infrastructure. We have worked with BCFC on this issue in the past, and are eager to provide input to discussions of a new model.

Recommendation

We favour development of a new governance model for provision of government supported ferry infrastructure that provides independence with regulatory oversight to ensure that the ferries serve as a transportation utility providing infrastructure for coastal communities and the Province.

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(ii) Service Improvement Alternatives

Wright Recommendation

"We recommend that the Province review alternative approaches to the delivery of ferry services with the objectives of being cost competitive, offering consumers choice and providing efficient, customer- focussed service. Such a model would clearly require greater private sector involvement. "

Response:

As long as regulatory authority ensured the same or better level of service at the same or better cost to users (and cost efficiency was improved) we would support investigation of alternative service delivery methods, particularly where these would encourage local economic growth and address the importance of employment opportunities for local residents. Any changes should be carefully monitored in consultation with stakeholders to ensure the continuance of acceptable service and to check that cost efficiency is actually improved. Users and taxpayers should not bear the cost of inefficient operations and management.

Recommendation

The place of the ferries as the marine highway system of the coast must not be compromised by changing service delivery methods, just as changes of road management/maintenance would not be contemplated if this would compromise the quality of the Provinces land highway infrastructure. Cost efficiency must be improved and examination of alternative service delivery methods should take this into account.

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(iii) Financial Analysis and Financial Framework

Wright Recommendation

"Simply put, BC Ferries must increase revenue and reduce costs. To do so it should consider altering service levels, increasing tariffs, implementing more flexible work rules, purchasing its vessels from the lowest cost and risk source, and urging the Province to build fixed links where economically warranted. Such actions are required to provide sufficient funding for the asset renewal necessary to sustain a reliable coastal ferry service at an acceptable cost to taxpayers."

Response:

We welcome Mr. Wright's comments in the area of flexibility and his clear identification of the cost of government policies.

We are in general support of the recommendations on *"implementing more flexible work rules, purchasing its vessels from the lowest cost and risk source,"*.

We have, in previous reports, stated opinions in line with the recommendation *"If they [BC shipbuilders] require financial subsidies to compete, they should be clear and visible, not delivered through the subterfuge of BC Ferries being compelled to purchase vessels at higher prices and risk"*.

We welcome Mr. Wright's comments on demand management and have always supported the use of demand management tariffs.

We concur that BCFC needs to *"be given clear authority to purchase standard vessels with a proven operating history in BC waters from the lowest cost provider that can accept 100% of the design and construction risk."*

We are (in agreement with Mr. Wright) of the opinion that BCFC's capital plan is overly conservative. Our response, however, is that the Province should capitalize or seek capitalization of BCFC in order to provide an expanding, improving infrastructure in support of economic growth.

We, also, are concerned about the costs (both financial and to efficiency) of restrictions placed upon

BCFC by Provincial and Federal policies (such as Transport Canada crewing and certification regulations and environmental regulations). We have stated in previous reports that costs for public policy decisions should not be borne by users of the system, but rather by the originating government. We note in this regard the high cost of Federal regulations and the fact that the Federal government does not use its' gas tax to support Provincial infrastructure in BC in any reasonable proportion to the amount it collects here.

This extends to consideration of the considerable (around \$9M) cost of social policy decisions (seniors, school and medical), which we have always maintained should be borne by the relevant Ministries.

Mr. Wright states that *"The CBA [which] lacks the flexibility to allow BC Ferries to operate as an efficient, cost effective operator."* We understand that the union is open to the concept of greater flexibility and encourage the government and BCFC to actively explore this issue with them.

We believe that some of Mr. Wrights financial assumptions are flawed; for example he includes lost interest revenue(\$58m) and amortization(\$36.6m) from rescinded debt as well as last years operating loss(\$49m) as part of his expected future corporate losses — expenses are completely unwarranted in predicting future earnings/losses for the Corporation since this debt was transferred to the governments books. We note that this debt was largely there due to past governmental mismanagement and inadequate/erratic government financial contributions. Another instance is his non-inclusion of elasticity figures when contemplating the affects of tariff changes (including his not examining the validity of BCFC's own elasticity figures).

Mr. Wright also fails to examine and suggest implications for future decisions of the impact of other past government decisions such as ship leasing and funding/capitalization deficiencies that lead to increased cost today. Had the 1977 highway equivalency funding model (set up by the government of the day when setting up BCFC) been continuously and reliably implemented since 1977 (and if government had not interfered with the Fast Ferry project) BCFC would not have been carrying debt and would, in all probability, be far more efficient and be charging considerably lower tariffs for better service. There are many lessons to be learned from these past mistakes, particularly the importance of examining governance models and the importance of stable funding.

The variance assumptions used in the report seem quite arbitrary and little backup argument is provided for the assumptions.

As an example we might consider some of the figures used in the sensitivity assessment in the report: The 36% increase in capital costs seems to be unsupported and likely insupportable, especially in light of Mr. Wright's comment that vessel prices have been coming down.

The assumption that interest rates could be 1% higher than BCFC's estimate. They could equally easily be lower.

On p 31 of the report, it is stated that if all the sensitivity factors were to be considered cumulatively, then the "balance of long term debt at the end of the 15-year plan would increase by \$1.2 billion." Then in the second paragraph, sec (h) same page, it is stated that if "just two of the adjusted assumptions, the purchase cost of the vessels and the rate of increase in expenses were realized, the financial impact could be severe, causing long term debt to increase by approximately \$1.2 billion." This seems inconsistent.

In the areas of financial sustainability Mr. Wright appears to have distorted or misread the financial picture of BCFC and to have ignored critical financial parameters such as demand elasticity. Contradictory statements about undercapitalization and profitability lead one to wonder how careful the financial analysis was. Those only reading the executive summary will be misled by this.

We worked with BCFC and government on the creation of a sustainable financial framework for BCFC based upon the recognition of the ferry service being part of the Provincial transportation infrastructure, which was, in part, implemented. The frame work is in no way perfect, however it is the first time since 1977 that BCFC has had a secure basis upon which to plan. We are of the opinion that this framework should be improved on, not subjected to another arbitrary change.

Mr. Wright fails to identify that a key factor in BCFC's poor financial performance, poor capitalization and inefficient financial and operational performance has been the lack of a clear and secure funding base. We would draw a parallel to the difficulties in the Washington State ferry system caused again by erratic funding.

Part of our original recommendations on financial sustainability for BCFC was that, like the federal contribution, the Provincial funding contribution be index linked. Mr. Wright does not, in his financial risk analysis, address this issue. We are of the opinion that this would make a considerable difference to the risk analysis.

The council has not yet expressed an opinion on fixed links, but we would be interested in participating in discussions around all aspects of integration of the marine transportation infrastructure on the coast.

We strongly support increased efficiency of service delivery and of BCFC management systems and believe that large steps in this area can be achieved without degradation of service or non inflationary tariff increases. The report does not adequately address this issue, which is one we have been hoping to see addressed for many years, and which we would be happy to work on with government and BCFC. Tariff increases/service reductions are *not* efficiencies.

With the projected growth of population in coastal BC talk of reduction in service levels is completely inappropriate. In Washington State (despite a very difficult financial situation) ferry service is planned based on providing infrastructure to support a growing user base, we should be doing the same here. Mr. Wright's suggestion that demand may drop by a large percentage is unwarranted.

Recommendations

We recommend that government continue the planned funding of the ferry system and, further, index link that funding to ensure continuing sustainability. BCFC, or any other operator, should then be held accountable for efficient execution of its planned budget.

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(a) Service and Tariff

Response

Due to its flawed paradigm and lack of objectivity the report generally fails to make useful or constructive comment in this area.

The Wright Report is extremely shortsighted on the broad social and economic necessity of a ferry system that is, in part, supported by public funding. Consequently that report is potential injurious to the communities that depend on the ferry service.

We strongly oppose reductions in service levels and increases (beyond reasonable inflationary increases) in the tariff (including in this reductions in discount levels for commuter tickets).

We believe that a key responsibility of government to provided infrastructure in order to encourage economic growth and sustainability.

We oppose the report's cost based/financial viability "limited corporate" approach to service levels, while this may be appropriate for a business looking at the system on a route by route basis with a view to purchasing a route it is not appropriate for an integrated coastal transportation infrastructure. One does not look at the Provincial road network purely on a cost basis and decide that a "road dependent" community is costing x number of dollars per car to service — rather, one looks at the system as a whole and examines whether it is efficiently addressing the infrastructure needs of the Province.

To look at a particular example of this in the report:

"The 24 routes that are unable to cover their direct operating costs and sustaining capital expenditures after allocation of the federal subsidy, lose a collective \$83 million per annum."

We are of the opinion that these routes cost a certain amount to operate per annum, in the same way that highways cost a certain amount to operate. This type of approach, where costs were stated as losses in a pejorative fashion, characterized the last government's ill advised attempts to show so called "break even" strategies for all routes in 1997 — this was, at the time, shown to be impossible for most smaller routes (if any level of service at all was to be maintained). The report implies that increased tolls (tariff) could address these route costs. Financial viability cannot be the goal on a route by route basis, and even for the whole corporation financial viability can only be a goal based upon financial input from taxation--just as is the case with roads.

In this area the report is seriously flawed firstly, in its analysis of the impact of tariff increases (it ignores elasticity effects) and refer to our previous reports in which it is clearly demonstrated that, for many routes, there are no tariffs that would result in break even, and, secondly, the routes are part of the highway system of the Province and costs should be borne by government in the same way that they are for roads. Tariffs on ferries are very high in relation to costs in comparison to the few local examples of toll charges on roads, and, thirdly, the routes make up one whole and should contribute to one whole integrated transportation infrastructure and thus should not be considered in isolation. We have expressed and argued clearly in our previous reports that financial sustainability for BCFC must be approached on a system wide basis. System wide choices of operating systems, labor practices, crewing levels, ship allocation and others have large affects on the cost base of individual routes and to set these routes to competing with each other is a pointless exercise.

The implication in the report that there are routes that break even (when considered in isolation) does not stand up to the test of proper analysis—if the cost of capital is considered (and the report suggests even higher capital costs should be planned for) then even the mainland services routes do not break even.

Due to elasticity, revenues will drop well below anticipated levels as traffic drops, if fares are raised too much. BCFC could well end up receiving less revenue, while sailing half empty ships.

We already have real world sensitivity results for large tariff changes, courtesy of the NDP government's ill conceived tariff hikes (including the two in 1997). Using Mr. Wright's figures; from 1976 to 1992, traffic grew 86%, or 3.95% per year, while population grew 35%, or 1.91% per year. Since that time traffic on BCFC has been fairly constant, growing 6%, or 0.67% per year, while population grew 22%, or 2.21% per year. This is not, as Mr. Wright supposes, due to declining real income, but, rather, to ill considered tariff manipulation by the NDP government.

These results indicate that BCFC's tariff elasticity figures are overly optimistic and apply only to small changes in tariff. Mr. Wright, in his analysis of BCFC sensitivity factors did not consider elasticity adequately, and in his statements about tariff he made no reference to this key issue.

This lack of tariff growth in the face of growing population demand also indicates the lack of growth of

tourism traffic, suggesting the negative impact of increasing tariff on this critical BC industry and the elasticity of that demand.

Present funding to BCFC is pretty much in line with the equivalent cost of providing highway access on a per mile basis (based on average highway cost). When BCFC Provincial funding was set up (by the Social Credit government of the day) in 1977 it was based upon a highway equivalency formula (cost per mile). In addition, users of the ferries pay a considerable toll to use the infrastructure. In other parts of the Province very costly highway accesses to remote communities far exceed the average per mile cost but are supported and are open for no-toll travel by all, this has been considered by all past governments (including Social Credit with their "freedom to travel" slogan) to be essential to the economic development of our Province. Note that toll charges on roads are normally only made when there is another alternative route, for almost all ferry routes there is no viable alternative.

The simplistic recommendations in this section of the report completely ignore the essential nature of a secure, convenient and affordable transportation infrastructure for the economic and social sustainability of coastal communities (both large and small) and the Province as a whole. The report does not recognize the key responsibility of government to provide infrastructure in order to encourage economic growth and sustainability, there are, indeed, few other more basic reasons for having a government.

We worked with BCFC and government for over two years on the creation of a rationalized tariff model. This exhaustive review of tariff and established a rational tariff policy based on per mile charges. This process clearly demonstrated that tariff can be rationalized to provide system wide parity with little negative impact. This report takes a large retrograde step in suggesting higher tariff for lower volume routes (a very impractical suggestion when elasticity and relative revenue base is taken into account).

Prior to this rationalization of tariff there was no clear basis for tariff decisions and governments arbitrarily changed tariff, causing customer insecurity (particularly in the tourism industry) and, again, as with government funding, crippling BCFC by removing their ability to plan for the future.

Our report on the tariff issue and BCFC and governments adoption of a rationalized tariff model finally gave ferry users and businesses a sound and stable basis for the future. To revisit the issue now would be to greatly reduce confidence in the ferry system. The rationalized tariff model provides for planned phased rationalization of tariffs, allowing users to plan and adapt over a period of several years. This process also gives all users confidence that fares are charged on the same basis across the system just as vehicle licensing fees and gasoline taxes (representative of cost of highways) are the same throughout the Province.

We refer to the Washington State ferry system report, which calls for tariff rationalization ("equity") on that system and recommends a very similar method to that recommended in our report on tariff and (partially) adopted by government and BCFC.

We are of the opinion that the government should allow BCFC to continue with the planned rationalization of tariff, and should not, as the last government did, impose arbitrary tariffs. Together with proper, continuing, funding of BCFC this will address BCFC's financial needs.

We wish to point out that subsidy to BCFC is very low in relation to other public transportation infrastructure such as BC Transit and that tariff forms a very significant proportion of BCFC income--a far larger proportion than was envisaged when the corporation was first formed.

The subsidy is also low in relation to that obtaining in Washington State, where a recent initiative seeks

to move from 60% to 80% cost recovery. BCFC is presently operating at 84% of all costs including capital (based on Wright report figures). Note that in Washington State cost recovery calculations do not include capital funding, and recent recommendations are (in line with highways) to not include maintenance costs either! Based on WSF guidelines BCFC is recovering 114% of direct operating costs!

Coastal and island communities (including those on Vancouver Island) have evolved and grown to their present state based upon a reliable, affordable, ferry transportation infrastructure, just as other communities have developed based upon a reliable, free, road infrastructure.

Coastal communities are "ferry dependent", just as other communities are "road dependent". To radically increase tariff or reduce service would be to destroy these communities, together with their economies and their contribution to the Province.

This report in no way addresses this issue and takes an oversimplified "limited business case" approach to a non-business situation. Even considered within this "limited business case" approach the report is flawed in that it did not examine the true costs of actions, including economic impacts, social cost impacts and tax base impacts.

Recommendations

We urge the government to allow BCFC to continue with the planned rationalization of tariff, and not to impose arbitrary tariffs. Together with proper, continuing, funding of BCFC this will address BCFC's financial needs

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(b) Pre paid ticket books and social policy discounts

Response

The so-called "*commuter tickets*" (pre-paid ticket books) on routes serving isolated coastal communities represent fares historically experienced by residents of coastal communities, on which their lifestyles and community viability is based and drastic changes to these would be equivalent to drastic changes to standard tariff.

Many small routes that have these special tariffs used to be operated with very low tariff by Ministry of Highways. When the BC Ferry Corporation was formed someone thought it administratively efficient to include all saltwater ferry services into the corporation's mandate. This was despite the fact that those small services had operated previously without needing the excessive overhead of a headquarters corporate administration.

Since the takeover these routes have suffered rapidly increasing tariff. In 1997 the NDP government made large increases in tariff, following protest to the government after this increase, ticket books were again made available at historical levels, adjusted for inflation. These ticket book tariffs are thus not considered by residents to be discounts but rather to be reflective of the historical tariff (plus CPI increases) that had been available to island residents until the attempted radical change by the NDP government.

Many users are not commuters and the ferry dependent communities are not just dormitories for them. Rather they live and work in their ferry dependent community and must use the ferry to access vital commercial, government, educational and medical services unavailable in their communities and to access markets and materials to support their economic activities-to say nothing of the ferries role in bringing customers to those activities. This case is no different than any other infrastructure dependent community.

In isolated communities with few or no services available locally these ticket book tariffs represent, for residents, the metric of isolation and would equate to the disproportionate cost to taxpayers of highway access to small landlocked road dependent communities.

Note that even completely eliminating these ticket book tariffs would make little impact on BCFC's bottom line (especially when elasticity was taken into account), but would have extreme negative impact on local communities and their sustainability. During the ongoing process of rationalization of tariff, equity must continue to be addressed.

We as a council have it in our business plan to address these issues as part of our ongoing dialogue on tariff rationalization with government and BCFC.

With regard to student, medical and senior social policy fares, the Coastal Council, in advising government and BCFC, has noted that these discounts serve social functions that are beyond the mandate of the Ferry Corporation. To the extent that the Corporation must "absorb" such social service discounts, the tendency is for the Corporation to seek to average these costs into the fares charged other passengers. If these discounts are to be continued, clearly they are not the funding responsibility of the Corporation or the other passengers. As social service decisions of government, they are funding responsibilities of the appropriate Ministries. The Corporation could, for example, have Memoranda of Agreement with the responsible Ministries and should be billing those Ministries for these discounts.

Recommendations

We recommend that the stakeholders, BCFC and government continue the planned discussions on rationalization of ticket book pricing rather than government making arbitrary and potentially damaging decisions on tariff.

We recommend that government assign the cost of social policy provisions to relevant ministries.

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5. Public Infrastructure and highway equivalency

This addresses this subheading of the Wright report, but, also, represents a response by Coastal Council to the underlying infrastructure paradigm upon which Mr. Wright based his report.

Wright Report statement

"It is imperative that an integrated marine transportation plan be prepared which delineates the role of roads, bridges and other competitive transportation alternatives. The present service delivery model is dominated by a heavily subsidized public monopoly that impedes the emergence of viable competitive alternatives. This plan could identify competitive alternatives that would necessitate a significant change from the status quo framework used by BC Ferries for its long- term planning.."

Response

We agree that *"an integrated marine transportation plan"* must be developed, in consultation with users.

The principle of "highway equivalency" is based on recognition that the maintenance of a regionally diverse and healthy economy in British Columbia requires that the public (i.e. government) ensure that the public network of road/automobile transportation is maintained to maximize the free movement of people, goods and services.

"Highway equivalency" for ferry services (as set up in 1977) required that the Province's financial support for BCFC's routes be roughly determined by the level of funding that government would give equivalent length of public highway. Consequently ferry tariffs tend, on average, to reflect the difference between the total cost of the service and the "highway equivalent" funding provided by the Province.

One of the fundamental distinctions between under-performing (underdeveloped) economies (which we associate with the so-called third world) and the post WW II economies of North America and Western Europe is the provision by central governments of an efficient public transportation system.

When governments back away from direct funding of basic public transportation infrastructure — which permit the convenient and efficient movement of people and goods — then not only does the economy suffer greatly but also the very purpose of government and government taxation is called into question. We pay taxes to government, not to pay salaries or give politicians something to manage, but to obtain Province-wide and nationwide services from government.

Infrastructure is only economically viable when considered within the context of the entire Provincial or regional economy.

We note that highway equivalency and the essential nature of ferries as part of a coastal transportation infrastructure is the keynote recommendation of the "Report of the Washington State Legislature's Joint Task Force on Ferries", despite the grim economic situation that the State found itself in. Instead of challenging the costs of ferry services, where significant tariffs are already in force, the Province must consider that the road and marine gas taxes (including federal gasoline tax) are intended to finance these costs as part of the Provincial highway system.

We find the report to be quite "urban centric" in its approach, rural and remote areas of the Province provide an essential part of the Provincial economy and culture, including vital resource based industries and tourism.

The tourism industry relies heavily on the coastal nature of BC and the contribution of coastal infrastructure to facilitating this industry serves to provide tourism business to many communities not directly ferry dependent. The ferry infrastructure is of benefit to the Provincial economy as a whole, not just to the coast.

Mr. Wright's cost analysis is compromised by his failure to consider the place of coastal transportation infrastructure in the Provincial economy, at the macro level, and in individual infrastructure dependent communities, at the micro level.

Coastal and Vancouver Island communities are ferry dependent, just as other communities are road dependent. Every community in the Province is, in fact, infrastructure dependent.

We believe that a key responsibility of government is to provide infrastructure in order to encourage economic growth and sustainability.

Recommendations

We believe that any decisions made about the coastal ferry system must be predicated upon the paradigm of this marine highway being an essential part of the Provincial transportation infrastructure, just as roads are.

If, as Mr. Wright states, responsibility for providing infrastructure is considered by government to be inappropriate for a Crown Corporation, then it would be logical to fix the administrative structure rather than to degrade the infrastructure in a vain attempt to force fit the Crown Corporation model where it is inappropriate.

Decisions on coastal transportation infrastructure must take into consideration the need to bolster community and Provincial economic development and sustainability.

We ask the Provincial Government to make strong representations to the Federal Government encouraging them to devote a large proportion of the Federal gasoline tax collected in BC to the development and maintenance of BC transportation infrastructure, including the marine highway (ferries).

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6. Conclusion

In addition to the above we refer readers to our previous reports on a Sustainable Financial Framework for BCFC, on Tariff and on Stakeholder relations. If you require copies of these reports, please contact us.

Key recommendation:

We believe that any decisions made about the coastal ferry system must be based upon a recognition that the marine highway is an essential part of the Provincial transportation infrastructure, just as roads are, and that a key responsibility of government is to provide infrastructure in order to encourage economic growth and sustainability.

7. Consultation—Future steps

We trust that, as the government contemplates the Wright report, stakeholder responses to that report and their core review they will consult with us on these issues. We believe that, together, we can make significant steps towards a more efficient, responsive and productive coastal transportation infrastructure through cooperative discussion.

We refer to our recommendations on future actions, and stakeholder consultation in the responses above.

We are available to meet with representatives of government to discuss issues raised in this report and our response, and those issues in the Wright TOR which were not addressed in our report.

Recommendation

We recommend that a government sponsored summit be held on the BC Ferry system and the marine transportation system as soon as possible .

The Coastal Council would be prepared to be an active participant and also play a leadership role in organizing such an event.

Respectfully submitted

Roxanna Mandryk
Chair
Coastal Council to BC Ferries.

Appendix:

TOR of Wright report.

Excerpts from Report of the Washington State Legislature's Joint Task Force on Ferries, 2001.

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Coastal Council Coordinating Committee E-mail: ferries@trax.bc.ca

This report on the Internet: <http://www.trax.bc.ca/ferries/index.htm>

Revised February 10th to update cost recovery figures.