



**Recommendations for a
Sustainable Financial Framework by Coastal
Council for BC Ferries**

Submitted to

**Hon. Gordon Wilson, Minister Responsible for BC Ferries,
Mr. Michael Francis, Chair – BCFC Board of Directors,
Mr. Bob Lingwood, President and CEO - BC Ferries**

August 3, 1999

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The Council respectfully submits these Recommendations for a Sustainable Financial Framework for BC Ferries to the Minister Responsible for the BC Ferry Corporation, to the Chair of the Corporation's Board of Directors and to the Corporation's President and CEO. It is the Council's hope that these recommendations will encourage the Government and the Corporation to implement a sustainable financial framework that provides the Corporation with the basis needed to fulfill its mandate. This report re-emphasizes the importance of the recommendations made in the Council's *Preliminary Report* submitted December 16, 1998 and elaborates on those recommendations which most directly impact the Corporation's financial framework.

The services that BC Ferries provide are part of the public transportation infrastructure that moves people and goods among three of British Columbia's eight economic regions: the Mainland/Southwest region, the Vancouver Island/Coast region and the North Coast region. Together, these three regions contain three-quarters of the province's population and they generate about two-thirds of the province's gross domestic product. In particular, the tourism industry, which brings over 30 million overnight stays per year to the province and comprises about 5% of the province's GDP, depends heavily on reliable and affordable transportation.

1.PRIMARY RECOMMENDATION

The Council's primary recommendation from its *Preliminary Report* remains an important statement describing the essential character of the ferry system to coastal communities. In this report, the statement is expanded to include a recommendation calling for a sustainable financial framework that will provide the resources to the Corporation to provide a safe and reliable ferry system on a continuing basis.

Recommendation: The Council is unanimous in its primary recommendation that government be guided in its decisions with regard to the Corporation's affairs by the following statement:

The British Columbia Ferry Corporation is an essential element of British Columbia's coastal environment. It provides highway links to Victoria, Vancouver Island, the Gulf Islands, the Sunshine Coast, and the mid-coast and the North Coast. The coastal communities served by BCFC have developed to where they are today because of the level and cost of access to them. The ferries are a critical part of the highway system linking communities together. They provide public transportation to over 22 million people annually and contribute to the economic diversity and vitality of the communities they serve as well as the entire province. Ferries are also a highly visible symbol of our prized lifestyle and environment, and attract people from around the world. Radical changes to service levels or fares have powerful effects on almost all aspect of the lives of coastal residents.

A sustainable financial framework must be established for the Corporation to ensure its ability to deliver this highway equivalent service to coastal communities both now and in the future.

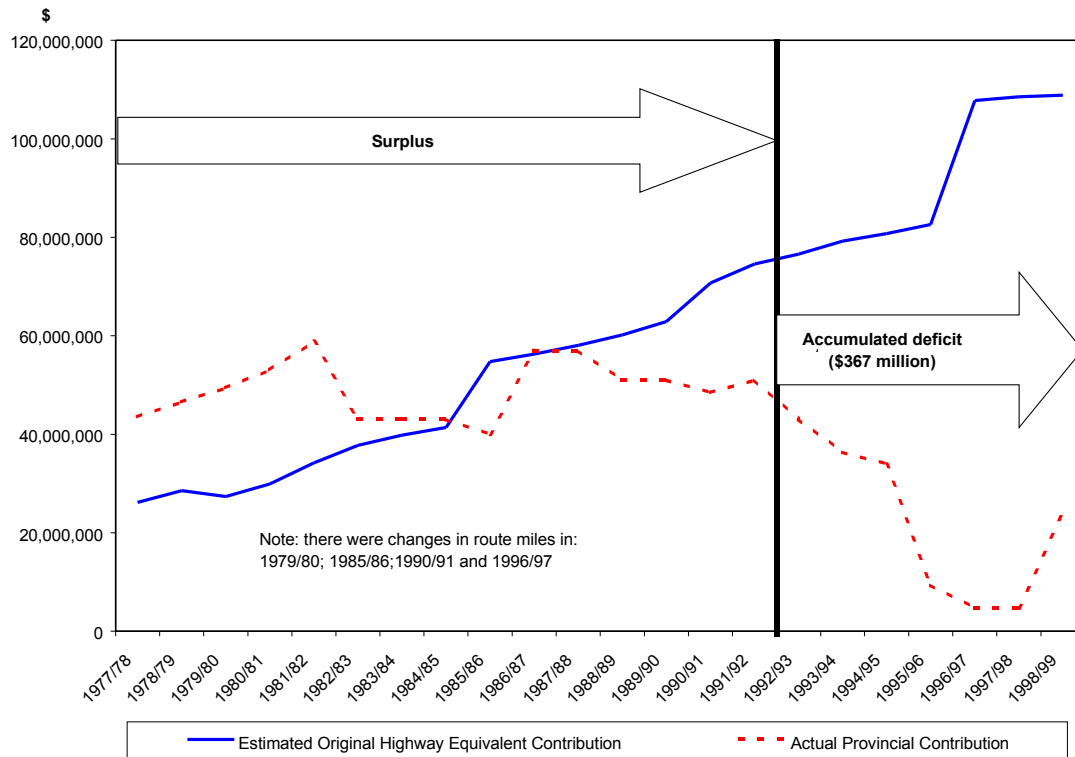
2. FINANCIAL FRAMEWORK HISTORY

The *Ferry Corporation Act*, established in 1977, set forth the financial framework under which the new Crown Corporation was to operate. It specified that,

“On the recommendation of the Minister of Finance and Corporate Relations, the Lieutenant Governor in Council may authorize the Minister of Finance and Corporate Relations to pay to the corporation an annual highway equivalent subsidy.”

The amount of this subsidy was set forth in an Order-In-Council dated August 11, 1977¹ (hereinafter referred to as “the original highway equivalence formula”). This formula committed the Province to fund the Corporation with a provincial subsidy per route-mile of ferry operation, based on the construction and maintenance of equivalent highway lengths and adjusted for inflation annually.

Provincial Contribution Comparisons Actual versus Original Highway Equivalence



Source: Treasury Group, BCFC

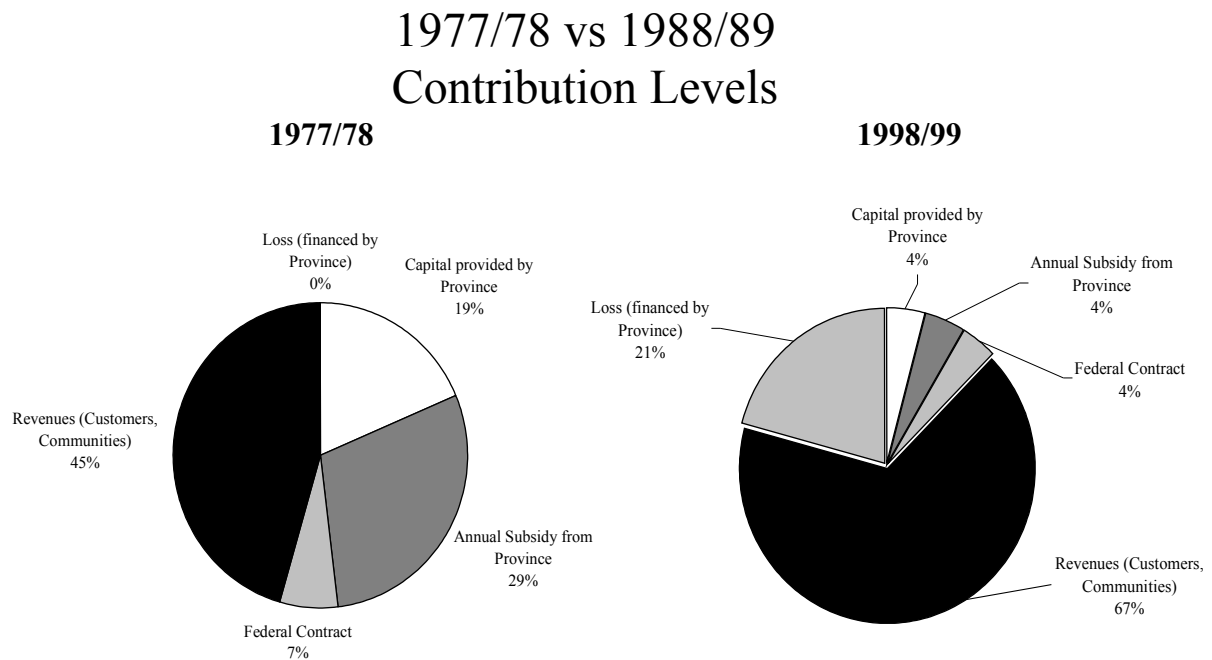
The graph above shows that until 1992/93 the accumulated contributions of the Province were greater than those that would have been received under the original highway

¹ This Order in Council is in appendix 5.2

equivalence formula, but have since fallen short, with an accumulated shortfall of about \$367 million in 1998/99.

The provincial subsidy, together with the federal contribution and fares, were the contributions that formed the financial framework under which BC Ferries was to operate.

Since the 1970's, the relative contributions have shifted dramatically as a result of policy changes by government, as the Chart below indicates. The provincial government's contribution declined substantially over that period, while fare box receipts accounted for a much higher percentage of total revenues received by the Corporation.

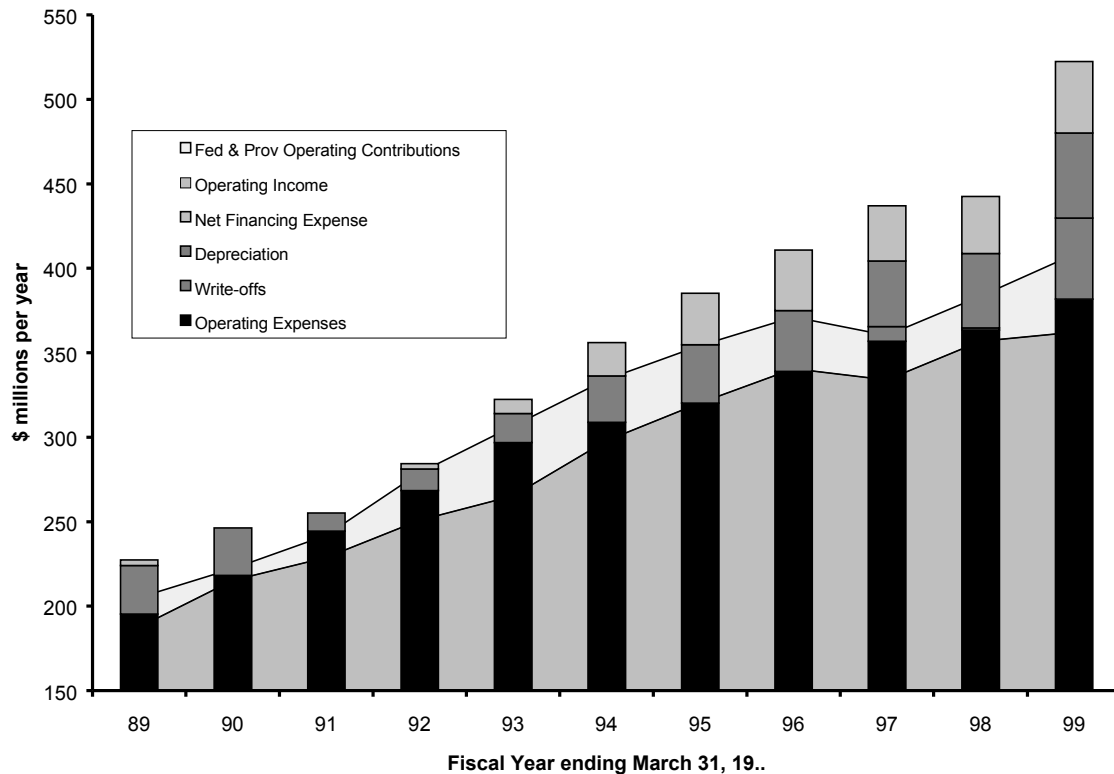


Source: Treasury Group, BCFC

In 1989, the Corporation's financial framework was again changed dramatically, as a result of another major policy decision that required the Corporation to bear the full cost of its capital. The relative contributions continued to shift and the Corporation began reporting significant losses. To compound the problem, the provincial subsidy to the Corporation decreased during the 1990s, to a low of \$4.7 million in 1998. During this same period the Corporation's losses continued to climb.

The following figure shows the results of increasing debt service costs and declining provincial contributions on the Corporation's finances.

British Columbia Ferry Corporation Revenues and Expenditures



Source: Treasury Group, BCFC

In response to the increasing losses experienced by the Corporation, the Corporation's Board of Directors asked management to start consultation initiatives to involve coastal communities in trying to find ways to put the Corporation back on a firm financial footing. The framework adopted by the Board in 1996 included a financial performance policy in which revenues, before subsidies earned on each route, would cover direct operating expenses within five years.

The Coastal Council rejected this policy in its *Preliminary Report*, stating that the breakeven target was problematic for two reasons:

- a. *Feasibility.* There are some routes for which charging a maximum price would not generate enough revenue to break-even on operating costs. In other words there is no tariff, without accompanying reductions in service, at which some routes would break-even. Since service reductions further reduce traffic, there may be no combination of tariff and service levels that permits these routes to break-even.
- b. *Different levels of break-even.* Breaking even on direct operating expenses is an inadequate target as it would still leave corporate overhead and capital costs not funded.

Council is committed to reversing this disturbing trend towards financial accountability for individual routes and believes that any financial framework should be defined for the coastal

ferry system in its entirety, providing a framework that is equitable across the system. Council acknowledges that the form of the contribution would allow or require cross-subsidies from the 'haves' to the 'have-nots' within existing tariffs.

3. BUILDING A SUSTAINABLE FINANCIAL FRAMEWORK

The Council continues to believe that establishing a sustainable financial framework is the most important priority for ensuring the ferry service contributes to "...this highway equivalent service to coastal communities both now and in the future". The following outlines the Council's specific policy recommendations for a 'sustainable financial framework'.

3.1 FINANCIAL FORECAST

The table below shows five-year financial projections for the Corporation, which include sufficient funds for the orderly retirement of existing debt but does not, after 1998/99, include federal or provincial contributions.

<i>Fiscal Year</i>	<i>98/99</i>	<i>99/00</i>	<i>00/01</i>	<i>01/02</i>	<i>02/03</i>	<i>03/04</i>
	\$ millions per year					
Projected Loss (December 1998)	94.9	108.7	125.5	138.1	158.4	181.8
Projected Loss (July 1999)	114.3	136.3	173.5	192.0	214.9	240.4

Source: Treasury Group, BCFC

Within the five-year period under review, the Corporation requires additional revenue or reduced expenditures in the range of \$100 to \$200 million per year, after the federal contribution, to balance all revenues and all expenses, including depreciation, so that it can ultimately achieve a sustainable financial framework. The Council acknowledges the forecasts used to identify the gap are very conservative, but felt it was important to consider the worst case scenario.

This forecast assumes that sufficient funds are available for new capital spending equal to the Corporation's capital expenditure targets set by Treasury Board for the next four years and \$116 million per year thereafter. The Council has again reviewed the Corporation's estimates for capital requirements and believes that \$125 million per year in capital expenditures is an adequate minimum.

Recommendation: The Council recommends that the Corporation be operated utilizing a sustainable financial framework wherein revenues, including the Federal and Provincial contributions, equal the Corporation's full costs, including depreciation. This approach provides the Corporation with sufficient funds for capital renewal, but does not provide an opportunity for the shareholder to take profits.

3.2 FORM OF PROVINCIAL CONTRIBUTION

In developing its financial framework recommendation, the Council initially reviewed ten different models. In its December 1998 *Preliminary Report*, the Council recommended the reinstitution of the original highway equivalency formula. This model applies a provincial subsidy per route-mile of ferry operation, based on the construction and maintenance of equivalent highway lengths and adjusted for inflation since 1977 and annually thereafter.

The Provincial 1999/00 Budget made an increased contribution to the B.C. Ferry Corporation. However, even when combined with the Federal contribution a sustainable financial framework is not achieved. Council appreciates the Government's move towards a highway equivalency model. However, we agree with the Minister's statement in his June 14, 1999 letter that the recent changes in the provincial contribution "...do not represent a final financial framework..." We estimate that with the Provincial Government's proposed contribution level BC Ferries' losses will continue to increase and the Corporation will accumulate another \$500 million in losses over the next five years.

The Council believes it is imperative that both B.C. residents and tourists see the B.C. Ferry Corporation as a financially healthy transportation system. In our view the only way to put the B.C. Ferry Corporation on the road to a financially sustainable future is to adopt the original highway equivalence formula. The responsibility for closing the huge and ever increasing gap between revenues and expenditures cannot be relegated to the users. The gap can only be filled by a sound and equitable financial framework that provides the equivalent of the original highway equivalency formula. We are pleased to hear that it is still the intention of the Minister that "...this government put in place a financial framework that results in the Corporation balancing its income statement in the future."

The following is a list of funding mechanisms available to the Province for the provision of the contribution to BC Ferries:

1. Annual appropriation from the Province's General Fund under the authority of either the Supply Act or special legislation.
2. A revenue covenant (i.e. a legal or contractual commitment by the Province) which assigns part of its consolidated revenues to BC Ferries in the form of either a revenue bond or dedicated taxes.
3. An equity injection into the Corporation either in the form of a cash contribution or rescission of debt.

Either a revenue covenant or an equity injection into the Corporation represents more enduring forms of contribution, and provides BC Ferries' customers with more assurance about the stability of future funding.

Recommendation: Council unanimously recommends re-instituting the original highway equivalency formula that was originally developed to fund the Corporation on a route-mile basis, with adjustments for inflation, in an enduring form. For 1999/00 this contribution would be about \$101,822 per statute mile serviced by the Corporation (currently 856.4 miles); thereafter, the figure would increase at the official rate of inflation.

BC Ferries has accumulated losses of over \$200 million in the last five years. This accumulated loss has been accompanied by increases in debt, which have deteriorated BC Ferries' balance sheet. Restoring the original highway equivalency formula will provide some stability into the future but would not address the accumulated losses. BC Ferries, still burdened with that associated debt, would fail to balance its income statement.

To provide for the solvency of BC Ferries, as well as its forward stability, the Council believes that the government should restore the original highway equivalency formula retroactively. The shortfall between the original highway equivalency formula and the actual contributions made has accumulated to \$367 million.

Recommendation: Council recommends that the Province rescind \$367 million of BC Ferries' outstanding net debt.

The following table provides an overview, illustrating how contributions from communities, the Corporation and the Federal and Provincial governments could produce a sustainable financial framework. This scorecard is only to be used as an illustration of the relative contributions from Government and communities. It should be noted the amounts specified do not result in the Corporation's net income being zero. It is assumed that the Board of Directors and Management would continue to fulfill their fiduciary responsibilities and find savings and/or additional revenues from the four shaded categories.

SCORECARD ILLUSTRATING THE RECOMMENDED STRUCTURE FOR CONTRIBUTIONS

	Fiscal Year	98/99	99/00	00/01	01/02	02/03	03/04
		(\$ millions/year)					
Projected Net Loss (before contributions)		-114.3	-136.3	-173.5	-192.0	-214.9	-240.4
CONTRIBUTIONS:							
<i>Corporation and Communities</i>							
Back Office Administration		0.0	3.0	5.0	5.0	5.0	
Transport Canada manning requirements		to be determined by the Corporation					
Collective Agreement		to be determined by the Corporation					
BC Ferries' business plan		to be determined by the Corporation					
Reservations and demand management		3.0	5.0	12.0	12.0	12.0	
Tariff Increases		0.0	2.8	5.5	8.3	11.2	
Service Efficiencies		0.0	2.0	3.0	4.0	4.0	
Total Corporation and Community Contributions		3.0	12.8	25.5	29.3	32.2	
<i>Levels of Government</i>							
Total Federal Government Contributions		22.2	22.3	22.5	22.8	23.1	
Province: Social programs		10.8	11.0	11.2	11.5	11.7	
Province: Public policy		to be determined by the Corporation					
Province: Original highway equivalents (less Fed contribution)		87.2	88.4	89.7	90.9	92.2	
Province: Debt rescission (\$367.7 m @ 6%)		22.1	22.1	22.1	22.1	22.1	
Total Provincial Government Contributions		120.1	121.5	123.0	124.5	126.0	
<i>Interest Expense Impact</i>		<i>0.0</i>	<i>9.4</i>	<i>20.2</i>	<i>32.4</i>	<i>45.8</i>	
Loss, after Contributions		9.0	-7.5	-0.8	-5.9	-13.3	

Provisional forecast, subject to change

Source: Treasury Group, BCFC

A glossary of the terms used in this table is appended.

3.3TARIFF POLICY

One of the Council's main goals in recommending that the Corporation operate within a sustainable financial framework is to provide communities with an assurance that tariff changes will not produce 'shock rates'.

Recommendation: The Council recommends as tariff policy that at no time should annualized tariff changes exceed the official rate of inflation and that no tariff change should occur until after the long term sustainable financial framework has been implemented.

Minority position supported by four Council members: Four representatives (Cortes Island, Quadra Island, Thetis Island and Kuper Island) supported the following: That in addition to the above recommendation, tariffs on all routes be rolled back to the November 13, 1997 level, prior to the implementation of the above tariff policy.

Council believes it is the responsibility of the Board and management to ensure that the financial sustainability formula is kept in balance. Council also believes that, when the Board and management make recommendations to Cabinet on changes to the tariff, there should be a set of principles agreed upon by all stakeholders that guide Cabinet when considering tariff recommendations. Council has asked its Financial Direction Working Group to begin developing these principles for discussion at Council's October meeting.

Recommendation: The Council recommends the BCFC Board and Senior Management should be responsible for ensuring the financial sustainability formula remains in balance.

Recommendation: The Council recommends that a set of principles be agreed upon by the Council, Government and the Corporation which would be the criteria considered by Cabinet for future tariff changes.

3.4NO TARIFF OR SERVICE CHANGES UNTIL COUNCIL'S REPORT IS RECEIVED AND RESPONDED TO BY GOVERNMENT

In a letter dated October 23, 1998, Council sent the Minister the recommendation stated below:

"It is the position of the Coastal Council that there be no change in tariff until a full report on tariff and subsidy issues is received by Government and an agreement on subsidy and tariff policy and implementation strategy between the Provincial Government and the Coastal Council is reached. Members of the Coastal Council commit to work expeditiously towards the completion and submission of the report on tariff and subsidy policy recommendations."

This position was restated in the December 16, 1998 *Preliminary Report*.

On June 14, 1999, the Minister responded to the Council's *Preliminary Report* stating:

"This government will not increase the tariff, nor will it make any service changes that materially reduce the current quality of service during 1999. More specifically, the next general tariff change will not be proposed for implementation prior to April 1, 2000 and this will only occur after consultation with stakeholders, including the Coastal Council."

While Council welcomes the brief reprieve offered by the Government on tariff increases, it is more important that a consultative process for setting such tariffs, which is both fair and equitable, be established in order that there might be some long-term stability. Too often raising the tariff is seen as the easy answer to a complex financial problem whose root cause has not yet been identified and properly addressed. The Council believes that a sustainable financial framework must be in place before any rational changes to the tariff would be possible, and urges the Government to ensure this framework is in place prior to making any changes to tariff or service levels.

Recommendation: The Council recommends that the Minister reconsider his written response to the Coastal Council of June 14, 1999 and agree to postpone any tariff or service changes until a policy is in place which ensures a sustainable financial framework implementation strategy has been developed and specific strategies for subsidy and tariff policy are in place.

3.5 CREDITS FOR PROVINCIAL PROGRAM OBJECTIVES

SOCIAL POLICY CREDITS: The Corporation forgoes about \$10.6 million per year in revenues by providing free travel for seniors (during weekdays), school children, junior associations and persons travelling under the Medical Transportation Assistance Plan.

Council is recommending that the Corporation be funded as part of the highway system using the original highway equivalency formula. If the government chooses to implement social and other policy objectives other than those associated with its role as a transportation utility that increase the Corporation's costs, then the government should provide additional funds to cover these costs.

Recommendation: The Council recommends that the Corporation receive a separate policy credit to cover the revenues lost when transporting seniors (on weekdays), school children, junior organizations and persons travelling under the Medical Transportation Assistance Plan.

Recommendation: The Council recommends that the Government's social and public policy (e.g. shipbuilding credits) should be transparent. Government policies that cost BC Ferries should be paid for by Government.

3.6 CAPITAL ALLOCATION

The Corporation is presently engaged in completing work on its five-year capital plan. The decisions that result from this work will have a major impact on our communities. The Council would like to develop an understanding of the principles by which major capital is allocated and to have an opportunity to comment on the five-year capital plan.

Recommendation: The Council recommends that it have an opportunity to comment on major capital allocation decisions, including those associated with the present five-year capital plan.

3.7 CROSS SUBSIDIES AND THE AVERAGING OF ROUTE PERFORMANCE

Commercial routes have historically been considered the Georgia Strait routes between the Lower Mainland and lower Vancouver Island. Until 1989 these routes were provided with subsidized capital until 1989, and the operating surpluses from these routes were used to cross-subsidize non-commercial routes. Since 1989, the Province has required the Corporation to bear the full cost of capital. This change resulted in significant cost increases on all the major routes, thus limiting the funds available for cross-subsidy. Additionally, recent tariff increases have raised concern about the ability of customers on the commercial routes to absorb further increases without causing large reductions in ridership. The Council considered whether Government should subsidize all routes or only those routes that ‘need it’.

Recommendation: The Council recommends that, in keeping with its role as a transportation authority, the Corporation should be subsidized as a whole, not for specified routes.

Recommendation: Council recommends that any surplus generated by a route or division be returned to the Corporation as a whole, to be distributed in support of routes not generating a surplus, subject to the following:

- No route should have to raise its price to increase a cross-subsidy to other routes
- No route should lower its prices as long as the system is not breaking-even
 - Except when the price decrease will generate more revenue on the route;
 - Except when price points and market shares show that a price decrease would bring a significant economic benefit to coastal communities; or
 - Except when significant social hardship is shown to exist in coastal communities.

4.COUNCIL'S NEXT STEPS

4.1COUNCIL'S MANDATE

This report deals with Council's recommendations for a sustainable financial framework, which remains the primary goal of the Council. Council will continue its work as outlined in the mandates of its committees and in its Terms of Reference.

The Council's Financial Direction Committee will be directing its efforts towards providing recommendations for rationalizing the tariff. Council believes that, when the Board and Management make recommendations to Cabinet on changes to the tariff, there should be a set of principles agreed upon by all stakeholders that guide Cabinet when considering tariff recommendations. Council will meet in October to discuss possible principles that should be considered when proposing changes to the tariff. It is the view of the Council that these principles should be collaboratively developed with the Board and Senior Management.

The Council's Service Efficiency Committee will continue its work in helping to identify potential savings in this area. In order to provide Council with a firm estimate for potential service efficiency savings, this Committee has focussed on developing a series of principles upon which service efficiencies can be identified and cost savings estimated. A toolkit is presently being developed which will assist Tier 1 Advisory Committees in identifying service efficiencies on their "routes". The toolkit will be completed for Council's October meeting and it is the Committee's intention to distribute this toolkit late in the fall so Tier 1 Committees can report back early in the new year.

Other specific topic areas the Council believes will have a high priority over the next year include the following:

- Distribution of Federal and Provincial Contribution– See Financial Direction Working Group mandate in the "Preliminary Report", Section 4.1;
- Costs & Economies Working Group will monitor and report to Council on Auditor General's report;
- Level of service; and
- Governance.

The Council has proven to be a very effective forum for communication through a collaborative process. This collaborative process has included the four parties mentioned in Mr. Fryer's report (BCFC, BCFMWU, Provincial Government and coastal communities) and has successfully built up consensus on controversial issues rather than an approach based upon reaction by communities as was previously the case in 1997.

We believe the Council can continue to be an effective forum to provide advice on a variety of policy matters related to creating and maintaining a safe, reliable and financially sustainable ferry transportation system. In order for the Council to continue to be effective it is essential that all members of the Council continue to participate fully in its activities, including BC Ferries Management and Board. It is also necessary for the Council to continue to receive the level of resources necessary to carry out its mandate.

5. APPENDICES

5.1 LIST OF RECOMMENDATIONS

5.1.1 PRIMARY RECOMMENDATION

Recommendation: The Council is unanimous in its primary recommendation that government be guided in its decisions with regard to the Corporation's affairs by the following statement:

The British Columbia Ferry Corporation is an essential element of British Columbia's coastal environment. It provides highway links to Victoria, Vancouver Island, the Gulf Islands, the Sunshine Coast, and the mid-coast and the North Coast. The coastal communities served by BCFC have developed to where they are today because of the level and cost of access to them. The ferries are a critical part of the highway system linking communities together. They provide public transportation to over 22 million people annually and contribute to the economic diversity and vitality of the communities they serve as well as the entire province. Ferries are also a highly visible symbol of our prized lifestyle and environment, and attract people from around the world. Radical changes to service levels or fares have powerful effects on almost all aspect of the lives of coastal residents.

A sustainable financial framework must be established for the Corporation to ensure it is able to deliver this highway equivalent service to coastal communities both now and in the future.

5.1.2 RECOMMENDATIONS RELATING TO FINANCIAL DIRECTION

Recommendation: The Council recommends that the Corporation be operated utilizing a sustainable financial framework wherein revenues, including the Federal and Provincial contributions, equal the Corporation's full costs, including depreciation. This approach provides the Corporation with sufficient funds for capital renewal, but does not provide an opportunity for the shareholder to take.

Recommendation: Council unanimously recommends re-instituting the original highway equivalency formula that was originally developed to fund the Corporation on a route-mile basis, with adjustments for inflation, in an enduring form. For 1999/00 this contribution would be about \$101,822 per statute mile serviced by the Corporation (currently 856.4 miles); thereafter, the figure would increase at the official rate of inflation.

Recommendation: Council recommends that the Province rescind \$367 million of BC Ferries' outstanding net debt.

Recommendation: The Council recommends as tariff policy that at no time should annualized tariff changes exceed the official rate of inflation and that no tariff change should occur until after the long term sustainable financial framework has been implemented.

Minority position supported by four Council members: Four representatives (Cortes Island, Quadra Island, Thetis Island and Kuper Island) supported the following: That in addition to the above recommendation, tariffs on all routes be rolled back to the November 13, 1997 level, prior to the implementation of the above tariff policy.

Recommendation: The Council recommends the BCFC Board and Senior Management should be responsible for ensuring the financial sustainability formula remains in balance.

Recommendation: The Council recommends that a set of principles be agreed upon by the Council, Government and the Corporation which would be the criteria considered by Cabinet for future tariff changes.

Recommendation: The Council recommends that the Minister reconsider his written response to the Coastal Council of June 14, 1999 and agree to postpone any tariff or service changes until a policy is in place which ensures a sustainable financial framework implementation strategy has been developed and specific strategies for subsidy and tariff policy are in place.

Recommendation: The Council recommends that the Corporation receive a separate policy credit to cover the revenues lost when transporting seniors (on weekdays), school children, junior organizations and persons travelling under the Medical Transportation Assistance Plan.

Recommendation: The Council recommends that the Government's social and public policy (e.g. shipbuilding credits) should be transparent. Government policies that cost BC Ferries should be paid for by Government.

Recommendation: The Council recommends that it have an opportunity to comment on major capital allocation decisions, including those associated with the present five-year capital plan.

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Recommendation. Council recommends that any surplus generated by a route or division be returned to the Corporation as a whole, to be distributed in support of routes not generating a surplus, subject to the following:

- No route should have to raise its price to increase a cross-subsidy to other routes
- No route should lower its prices as long as the system is not breaking-even
 - Except when the price decrease will generate more revenue on the route;
 - Except when price points and market shares show that a price decrease would bring a significant economic benefit to coastal communities; or
 - Except when significant social hardship is shown to exist in coastal communities.

5.2ORDER-IN-COUNCIL (ANNUAL HIGHWAY EQUIVALENCY SUBSIDY)

(As attached)

Appendix: Glossary of Terms Used in the Scorecard

Administration:

Savings to be realised by reducing expenditures on administration and management within the Corporation.

Transport Canada Manning Regulations:

Savings to be realised by more efficient assignment of crews, through assessment and modification of those regulations set by Transport Canada that determine the minimum crew complement required aboard each vessel.

Collective Agreement:

Savings to be realised through the negotiation of successive collective agreements.

BC Ferries Business Plan:

Additional revenues to be earned from marketing and business development initiatives, other than those included in the introduction of high-speed ferries and reservations.

Reservations and Demand Management:

Additional revenues to be earned from increased demand for travel on route 2, following the introduction of high-speed ferries and reservations.

Tariff Increases:

Increases in the prices charged for existing transportation services on existing routes.

Service Efficiencies:

Decreases in service plan expenditures and/or increases in revenues on existing routes, to be achieved without material degradation in the quality of service, or tariff increases.

Federal Government:

Contributions from Canada, due to British Columbia under the Marine Subsidy Agreement of 1977.

Province: Social Programs:

A contribution from the Province, equal to the value of revenues lost by providing free passage to BC Seniors, school children and persons travelling under the Medical Transportation Assistance Plan.

Province: Public Policy:

A contribution from the Province, equal to the estimated expenditures undertaken by the Corporation in pursuit of economic development initiatives, such as shipyard stabilization.

Province: Original Highway Equivalency:

A contribution from the Province, equal to the highway equivalency grant provided in 1997/98, adjusted for route mileage changes and inflation in the

intervening period. The provincial contribution is the original highway equivalency grant minus the Federal contribution.

Province: Debt rescission:

A rescission by the Province of \$367 million of BC Ferries' net debt. The \$367 million is the estimated accumulated shortfall of the Province's actual contributions versus those that would have been received under the original highway equivalency formula. The estimated annual savings of the debt rescission are derived by multiplying the proposed debt rescission of \$367 million by BC Ferries' estimated average cost of debt (6%).

Interest Expense Impact:

An estimate of the reduction in debt service costs that would result if the identified contributions were received. The annual contributions would reduce BC Ferries' borrowing requirement, thereby reducing its debt service costs.