

Discussion Paper

Towards a Minor Routes Strategy for Coastal Ferry Service



*Prepared by the
Ferry Advisory Committee Chairs*

*for presentation to
The Minister of Transportation and Infrastructure*

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Discussion Paper
Towards a
Minor Routes Strategy
for Coastal Ferry Service
Ferry Advisory Committee Chairs

Executive summary

The Ferry Advisory Committee Chairs are proposing that a strategy be immediately undertaken to sustain BC Ferries minor ferry routes and route three on a sound financial footing so that they can adequately serve coastal communities.

In 2003 the *Coastal Ferry Act* was introduced to ensure modest and predictable fare increases, to promote economic development and to support tourism growth while protecting taxpayers from financial risk. This framework has enabled the major routes to become financially self-reliant as they are no longer required to cross-subsidize the other routes. However, the initial provisions of the *Coastal Ferry Services Contract*, which specifies provincial support for the other routes, have proven to be inadequate to address unanticipated capital and operating costs. The Province and BC Ferries have undertaken a Northern Strategy which involves substantially increased provincial support for the northern routes.

A strategy is also needed for the minor routes which have been particularly hard hit by substantial fuel surcharges on top of significant annual fare increases. Fares have increased by as much as 120% in five years. This has resulted in a consistent drop in traffic and a loss of community and business confidence in the coastal transportation system. A costly capital program is required to address aging assets on these routes. Increasing fares can no longer be looked upon as the means of addressing costs, a conclusion that has been accepted with respect to the northern routes.

A strategic approach should include a number of elements. Traffic could be increased through increased promotion of tourism and marketing initiatives; this may be hard to achieve without competitive pricing. Costs could be reduced through innovations, increased productivity and service adjustments. A workshop is being planned to look at possible innovative approaches to ferry service. Productivity gains, while being pursued, are limited by regulatory requirements and contractual obligations. Exploring service adjustments needs to be done collaboratively with ferry users who are presently being stressed by the impact of ten fare increases in five years.

A key element in a successful strategy is the transportation fee provided by the province to support ferry service. This fee is scheduled to be virtually unchanged from 2003 to 2012 while the federal government's smaller contribution is indexed to inflation. Adjustments to the fee would provide a foundation for increasing traffic through marketing efforts and would enable the Ferry Advisory Committees to credibly engage their communities in exploring service changes. Adjustments could take the form of an immediate cash infusion to take the bite out of recent severe fare increases, indexing the transportation fee to the consumer price index and providing additional support as required to address capital investment and extraordinary circumstances.

This strategy could restore community and business confidence in the coastal transportation system and would help ensure that the goals of the Coastal Ferry Act to promote economic development and support tourism growth through stable ferry rates are accomplished.

Discussion Paper

**Towards a
Minor Routes Strategy
for Coastal Ferry Service**

Ferry Advisory Committee Chairs

Goal

To develop a strategy to sustain the minor routes and route three on a sound financial footing so that they can provide accessible (reasonably priced) ferry service to the communities dependent upon ferry service and can support economic development and tourism thereby sustaining the financial well-being of those communities.

Context

Coastal ferry service can be divided into three types of routes: the *major routes*, the *northern routes* and *other routes* which consist of the “minor routes” and route three. For the purpose of this discussion the “other” routes will be referred to as the *minor routes*.

For the major routes, sustainability is addressed through the *Coastal Ferry Act* which enables these routes to be financially self-sufficient by eliminating cross-subsidization of other routes. The sustainability of the non-major routes is addressed through the application of transportation fees specified in the *Coastal Ferry Services Contract*.

For the northern routes, the original transportation fees were recognized as inadequate to sustain these routes. The contract provided for the Province and BC Ferries to develop a Northern Strategy. This is reflected in increased transportation fees during the first and second performance terms of the contract; the government absorbed the latest round of severe fuel price increases. Without this strategy, it is unlikely that capital and operational costs could be met through increasing fares without restricting accessibility to the service and the jeopardising the role that these routes play in the regional economy.

It is now time to consider the specific requirements of the southern routes where similar factors are at play. Escalating operating costs have resulted in cumulative tariff increases that are affecting accessibility to the service and its ability to support local economic activity. As with the other route groupings, BC Ferries has inherited aging assets requiring a demanding capital program that will reach its peak in the third performance term. For these reasons a “minor routes strategy” must also be developed.

Possible elements of a strategy

Costs could be addressed in a number of ways: increasing fares, adjusting social program reimbursements, increasing ancillary revenue, increasing traffic, reducing service levels, introducing innovations, improving productivity, investment and increasing the transportation service fee. A strategic approach should look at all of these. So far, fares have been the major element that has been utilized to address costs. This unbalanced approach cannot be sustained.

- Fares

Fare increases at twice the rate of inflation were required by the *Coastal Ferry Act* for the first performance term of the contract (even higher increases are allowed through the price caps set for the second term). With the additional surcharges, ferry users have experienced 10 fare hikes in 5 years. Key tariffs on some routes have increased by more than 120% during that time with heavy annual hikes throughout this performance term still to come. These increases are far in excess of what is being experienced with other transportation modes.

This is having profound economic impacts. Small businesses in coastal communities generally operate on small margins. The increased costs of supplies and of reaching customers are hitting both expenses and revenue. Ferry costs are impacting the ability to retain and attract labour. The mean income of workers in most affected communities is substantially below the mean for the province. The steep fare increases in recent years have added considerably to their cost of living.

Many coastal communities are undergoing a transition from dependency on resource industries to cultural and tourism based economies. Accessible transportation is a key driver for such economies. These important sectors are being heavily hit by escalating transportation costs.

While pricing strategies can be undertaken by BC ferries in consultation with FACs, the net revenue still needs to be achieved. Thus breaks cannot be provided for tourists without negatively affecting tariffs utilized by residents or vice versa.

The Province announced the *Coastal Ferry Act* as providing a structure that would ensure modest and predictable fare increases. As it is, business confidence is being eroded by overwhelming and unpredictable increases.

The present “fare shock” needs to be addressed to restore this confidence. Future fare increases cannot be regarded as the answer to sustaining the provision of ferry service.

[see tables on earnings and fares]

- Social program reimbursements

This long-established set of programs provide for reimbursement to BC Ferries for travel undertaken in conjunction with specific social benefits, including senior, medical and student travel. Reimbursements vary according to the amount of such travel undertaken and the tariffs being charged. They make up only about 4% of the revenue for these routes.

Adjustments to such programs can only be undertaken with the Ministries responsible for these programs and there would likely be considerable concern from the beneficiaries of such services. Any review of these programs cannot be undertaken lightly and would be unlikely to result in any significant change to the financial framework.

- Ancillary revenue

Ancillary revenue is proving to be a growing contributor for other route groupings. It provides only about 6% of revenue on the minor routes. The potential for such revenue on most minor routes is limited due to the short travel time and existing private businesses catering to travelers’ needs sited adjacent to terminals. There are challenges to developing parking and reservation systems on the minor routes.

Ancillary revenue cannot be looked at as a significant revenue source for the minor routes.

- Traffic

Traffic has been showing a consistent decline on the minor routes for many months. The fact that traffic is in worse shape on the minor routes than on the major routes suggests that price is a factor; fare increases have been much more severe on the minor routes. Anecdotal information suggests even greater declines may be yet to come as a result of visitors' experience of high fares, this year, especially after the 17.6% August 1 fuel surcharge, influences future travel decisions. It is hard to see how the minor routes can contribute to the expectation in BC Ferries' business plan that traffic will increase by 2%.

Efforts are underway by many communities to promote tourism utilizing ferry travel. BC Ferries is planning marketing initiatives and a travel centre in Vancouver to promote ferry travel and intends to work with FACs to utilize this facility to encourage travel to the communities served by the minor routes. The FAC Chairs, through their participation in the Coastal Community Ferry Advisory Committee, have requested that TRAN bring Ministry of Tourism representatives into discussions with CCFAC to look at how the linkage between ferry service and tourism can be strengthened.

However, these efforts to increase tourism traffic are inhibited by already high and rapidly increasing fares which puts ferry destinations at a competitive disadvantage. This has been clearly indicated by BC Tourism statistics which show that the BC Ferries minor routes have been consistently underperforming compared to other tourism indicators.

[see tables on traffic]

- Service levels

BC Ferries business plan includes working with Ferry Advisory Committees to facilitate adjustments to local services. BC Ferries sees the FACs as being fundamental to a proposed process to look at potential service reductions to facilitate savings. Eliminating under-utilized sailings and adjusting the travel time for other sailings could, on some routes, lead to reductions in fuel and labour costs, including over-time. BC Ferries has suggested that such savings could be passed on to travelers through fare reductions on the routes where service levels have been cut.

However, it will be impossible for the FACs to facilitate such a process in our communities while there is high anxiety over fare levels. Residents and businesses perceive that FAC efforts to address fares have been unsuccessful so there will be little receptivity to suggestions that service reductions be considered. Communities would also need an assurance that such savings will result in reduced fares rather than reduced transportation fees.

- Innovation

The CCFAC, at the suggestion of Ministry staff, has proposed to the Commissioner that he hold a workshop to explore possible innovations in ferry service. The Commissioner has prepared an outline for such a workshop which he has discussed with the Ferry Advisory Committee Chairs and will be subsequently discussing with BC Ferries and TRAN. Outcomes from this workshop can inform service provision, capital acquisition and integrated transportation planning.

To be successful, such a workshop will require the full participation of BC Ferries, TRAN and the FACs.

- Productivity

The BC Ferry Commission sets productivity targets for BC Ferries. The FAC's function is, in part, as a watchdog with respect to productivity concerns. Federal regulations and contractual obligations with the province restrict the potential for immediate substantive changes.

- Investment

During the first and second term, BC Ferries has focused upon new vessels for the major and northern routes while undertaking some essential capital expenditures for the other routes (such as upgrades for the Quinitsa and Quinsam, the purchase of the Kuper and construction of the Island Sky). However, a more intensive capital program has been drafted for the minor routes in performance term three far exceeding what is provided for in the framework for the current term.

As noted above, fare revenue cannot be expected to carry such costs without significant consequences. The high level of anticipated capital costs is due in large part to past neglect when the province had direct responsibility for the infrastructure of the coastal transportation system. This province can address capital requirements by providing subsidies through the Transportation Fee (as with the northern routes) or by investment through additional share capital in BC Ferries.

- Transportation Fees

The Transportation Fees for the minor routes will have remained at essentially the same level (between \$76.5 and \$78 million) from 2003-2012 compared to what has been applied to the northern routes. Unlike the Federal Contract, which increases with CPI, the Transportation Fee remains flat which translates as a decreasing contribution from the Province in real terms. If the Fee had been increased at the same level as the Federal Contract, the Province would have contributed an additional \$16 million over the first performance term.

[see tables on transportation fees and federal contract funding]

The *Coastal Ferry Act* requires the Commissioner to apply the principle of a greater reliance on a user pay system so as to reduce over time the transportation fee contributions by the government. In practice, the Commissioner has little scope to apply this principle as it is the Province that determines the transportation fee contribution after the Commissioner has made a preliminary ruling on price caps. The Province has set no clear goals with respect to this principle and, as exemplified in the Northern Strategy, appears to have recognized that there are limits to what users can be expected to pay and has been willing to increase contributions by government.

Through establishing the transportation fee (and thus the amount of revenue that must be obtained from fares) the Province plays the controlling role in determining the pricing framework for coastal ferry service. This, in turn, shapes economic activity in affected communities. The precedent of the Northern Strategy, which involved an increase in Transportation Fees to address costs which could not be absorbed by further fare increases, needs to be applied to the minor routes. This could involve:

- a) Providing an immediate cash infusion, including absorbing some or all of the unprecedented fuel cost increases, enabling a roll back in fares.
- b) Indexing the Transportation Fees to CPI from 2003 and making adjustments as required to address extraordinary cost increases, traffic declines and community hardship.
- c) Contributing to investment in capital assets, particularly in the third performance term.

Other considerations

- Alternative Service Providers

The requirement to seek alternative service has shown no sign of producing results. Meanwhile, oversight by the BC Ferry Commission is helping ensure efficient delivery of service. The Ferry Commission has also indicated interest in stimulating the exploration of innovations. The ASP requirement may be redundant.

- Regulatory regime

The regulatory requirements of Transport Canada have a significant impact upon costs and upon the potential for service alternatives.

- Labour agreement

It remains to be seen what degree of flexibility exists with respect to the union agreement and human resources to enable substantive changes to service delivery.

- Fuel surcharges

Progressive fuel surcharges have hit the minor route customers particularly hard. (The current August surcharges are about 20% or more for regular travelers using the Experience Card.)

- Fuel taxes

BC Ferries pays GST on fuel as well as provincial and federal fuel taxes which all contribute to the cost of fuel. The Carbon Tax, as it applies to ferry service, could be redundant as an incentive to reduce fuel consumption because the Province sets contractual service levels and the Commissioner sets efficiency targets.

- Surveys

Customer satisfaction surveys, as currently conducted, are not providing useful information with respect to the minor routes as the surveys are designed to address service on the major routes. A parallel survey designed to specifically address minor route issues would provide BC Ferries with hitherto unavailable information regarding the provision of service to travelers on these routes. This has been discussed by the FAC Chairs with BC Ferries and the BC Ferry Commission.

- Research

Leaders of coastal communities have suggested the need for a better grasp of the relationship between ferry service and economic development. Studies could be undertaken by an appropriate entity to provide the necessary knowledge base for decisions on coastal transportation policy.

Possible roles and responsibilities in a Minor Routes Strategy

	FACs	BC F	TRAN
Fares	Communities have already absorbed significant fare increases. Work with BCF on pricing.	Work with FACs on pricing	Financial contribution to mitigate fare shock. Index transportation fee to limit future increases
Social programs	Possible future review through CCFAC		Possible future review through CCFAC
Ancillary revenue	Assist BCF in exploring possible opportunities	Incremental increases as opportunities are explored and developed	
Traffic	Local initiatives Advice on BCF initiatives Linkage with Tourism through CCFAC	Travel centre Marketing programs Support for local initiatives	Mitigate fare shock (as above) Linkage with Ministries of Tourism and TTED through CCFAC
Service levels	Facilitate community explorations once fare shock is addressed	Identify potential for savings and work with FACs	Mitigate fare shock (as above) Guarantee that savings accrue to fare decreases
Innovations	Participate in Commission's workshop	Participate in Commission's workshop	Participate in Commission's workshop
Productivity	On-going advice	On-going actions, including meeting Commission targets	
Investment	Advice on route-specific vessel and terminal requirements	Negotiations with TRAN to support capital program	Contributions to capital acquisition, particularly in PT3
Transportation Fee			1) immediate cash infusion. 2) fee indexation and on-going adjustments 3) contribution to capital acquisition (as above)
Other considerations	Input on development of surveys and other studies	Revise customer satisfaction survey for minor routes Pursue adjustments to union contract	Review ASP requirement Review fuel taxation Consider studies to inform coastal ferry policy Continue input on federal regulations

Conclusion and recommendations

The *Coastal Ferry Act* was introduced to provide a financially stable transportation system intended to ensure modest and predictable fare increases, to promote enhanced economic development and to support tourism while protecting taxpayers from financial risk and debt. The new business model has enabled efficient service delivery and effective capital planning.

However, in establishing a new structure not all outcomes can be predicted. In particular, it appears that the following were not anticipated:

- Increasing operational costs, especially those related to fuel;
- High capital costs to remedy the lack of previous investment in infrastructure;
- Resulting fare increases at a level that undermines the capacity of the system to promote economic development and to support tourism.

These facts have been understood with respect to the northern routes and are being addressed through the Northern Strategy. They also apply to the minor routes which similarly require a strategic approach.

Such a strategy could include the following:

- A. Promoting increased traffic through tourism marketing initiatives.
- B. Pursuing cost reductions through innovations and service adjustments.
- C. Mitigating fare shock through transportation fee adjustments.

A collaborative approach is required. TRAN would likely be reluctant to adjust transportation fees without a commitment to address service levels. BC Ferries would likely be reluctant to review service levels without the involvement of Ferry Advisory Committees. FACs are reluctant to participate in reviewing service levels without transportation fees being adjusted to address fare shock. Promoting tourism will be challenging without more competitive pricing.

A minor routes strategy is urgently required in order to implement the intent of the *Coastal Ferry Act* with respect to economic development, tourism and predictable, modest fares.

Immediate action is needed with respect to fares to regain badly needed community and business confidence in the coastal transportation system.

*Ferry Advisory Committee Chairs
23 September 2008*

Ferry Advisory Committee Chairs (FACC)

Members

Steve Smith	Co-Chair, North-Mid Coast FAC (<i>Co-Chair: Ed Russ</i>)
Debbie Garrett	Chair, Tri-Islands FAC
John Sprungman	Chair, Quadra-Cortes FAC
Tony Law	Chair, Denman-Hornby FAC
Andre Lemieux	Chair, Gabriola FAC
Doug Snyder*	Thetis-Kuper FAC (<i>Co-chairs: Ian Ralston, Sharon Cross</i>)
Harold Swierenga	Chair, Salt Spring FAC
Brian Hollingshead*	Southern Gulf Islands FAC (<i>Chair: Dave Dryer</i>)
Alison Morse*	Bowen Island FAC (<i>Chair: Bob Lalonde</i>)
Joyce Clegg	Chair, Gambier-Keats FAC
Jakob Knaus*	Southern Sunshine Coast, FAC (<i>Chair: Ed Steeves</i>)
Bill Cripps	Chair, Northern Sunshine Coast
* In some cases, FAC Chairs have delegated representatives to participate in FACC	

Background

The Ferry Advisory Committee chairs chair the twelve route-specific committees appointed by BC Ferries. These committees meet formally twice a year with additional meetings as required.

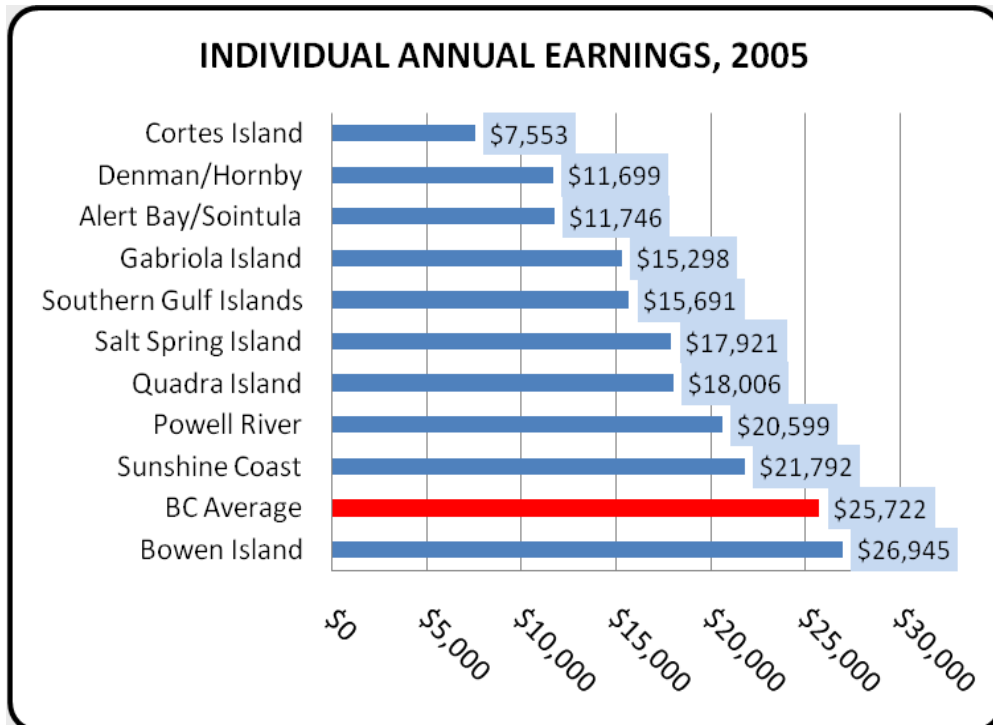
BC Ferries senior management have brought together the FAC Chairs on a number of occasions to address system-wide issues. In addition, this group has met several times with the BC Ferry Commission. The FAC Chairs also participate as members of the Coastal Community Ferry Advisory Committee established by the Ministry of Transportation and Infrastructure.

FACC members individually and collectively liaise between local committees (and the communities they serve), and parties involved in operating, regulating and setting policy for ferry service, which include BC Ferries, the BC Ferry Commission and the provincial Ministry of Transportation and Infrastructure. The FACC is also a vehicle for communication with the public at large. A number of reports and submissions have been prepared and news releases issued. A website is maintained at http://www.gabriola.org/facc/new_index.php

Contacts

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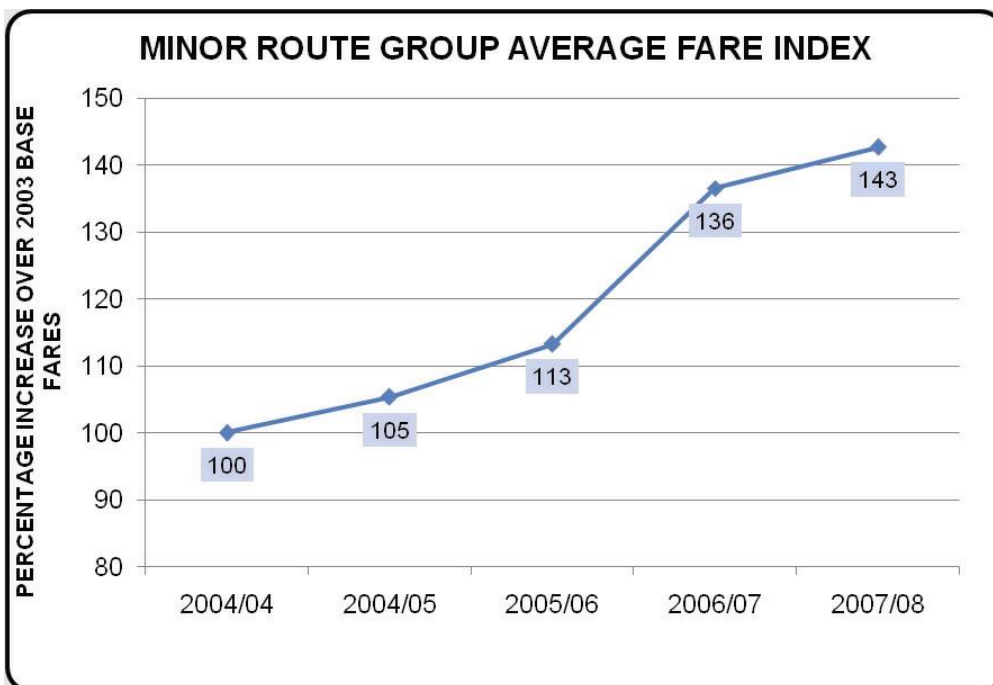
INDIVIDUAL EARNINGS, COASTAL COMMUNITIES



Source: Statistics Canada

earningsgraph080903.doc

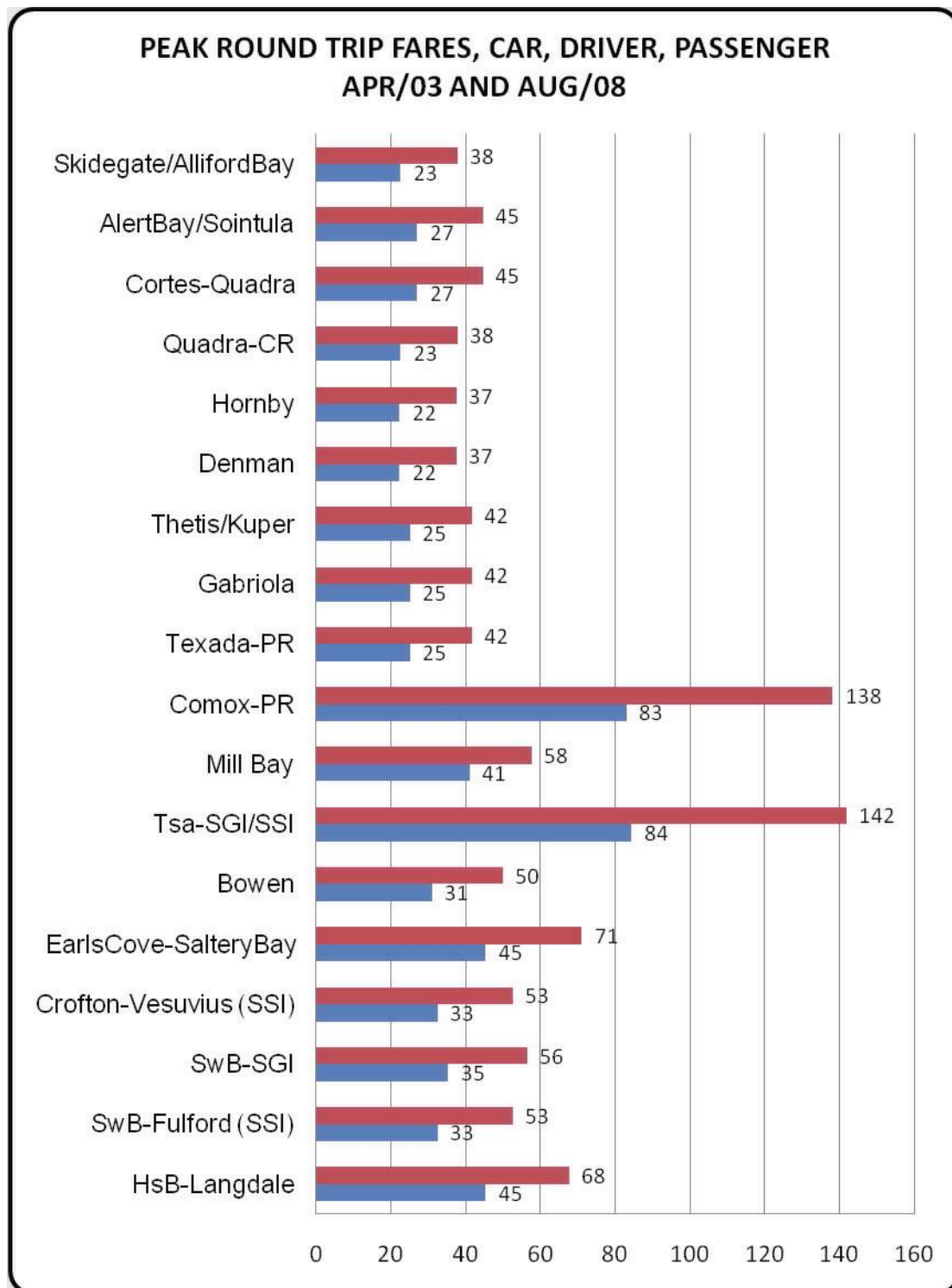
FARE INCREASE



source: BCFerries

fareindexgra080903.doc

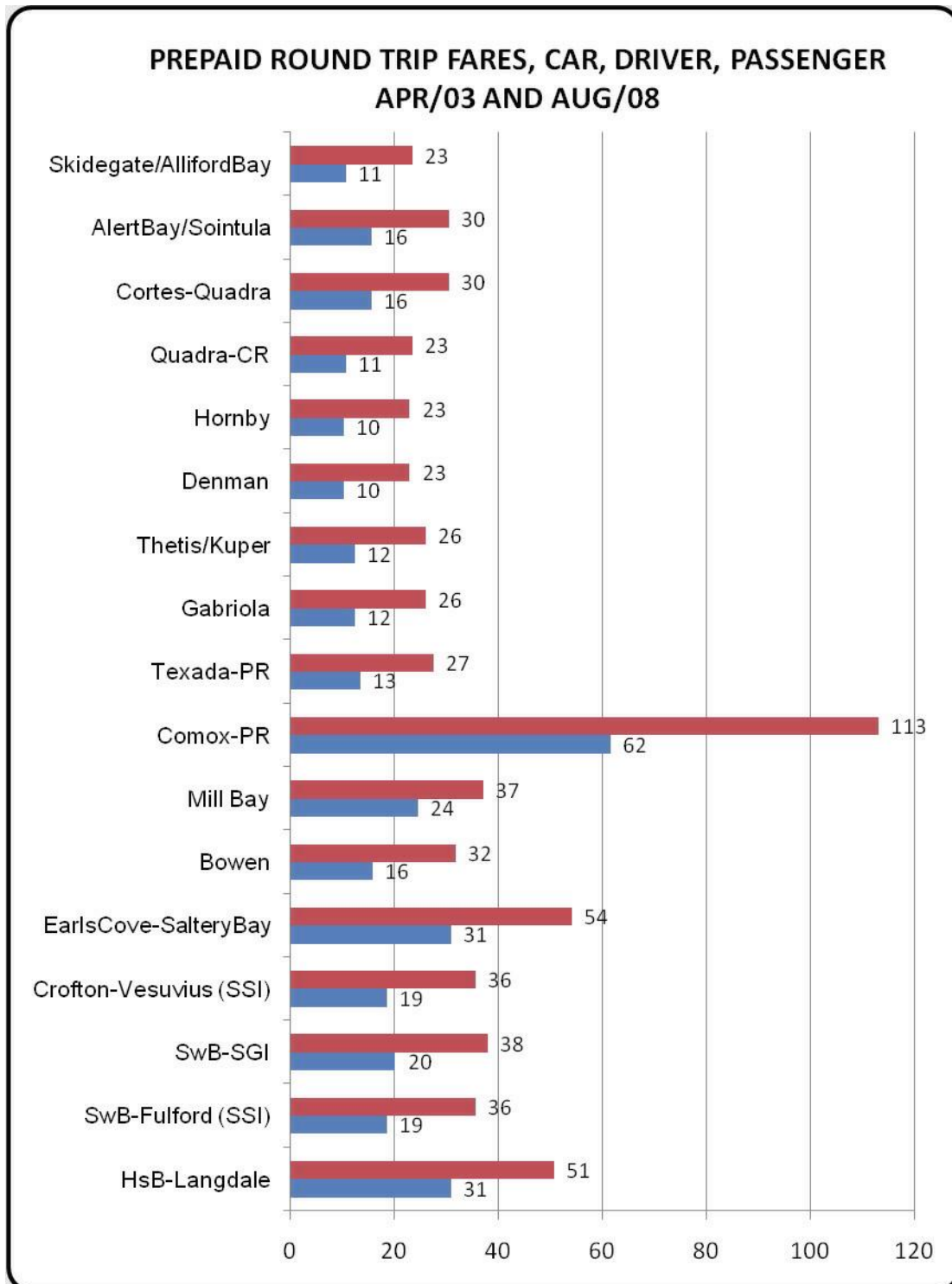
PEAK FARES, 2003 to 2008



source: BCFerries

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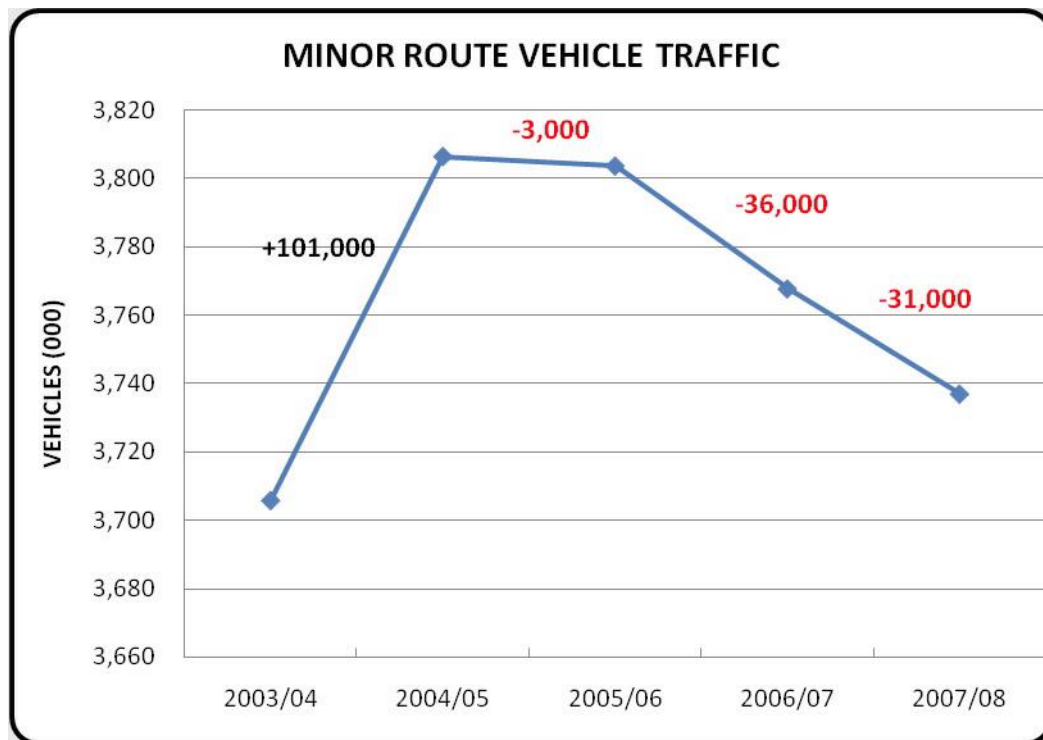
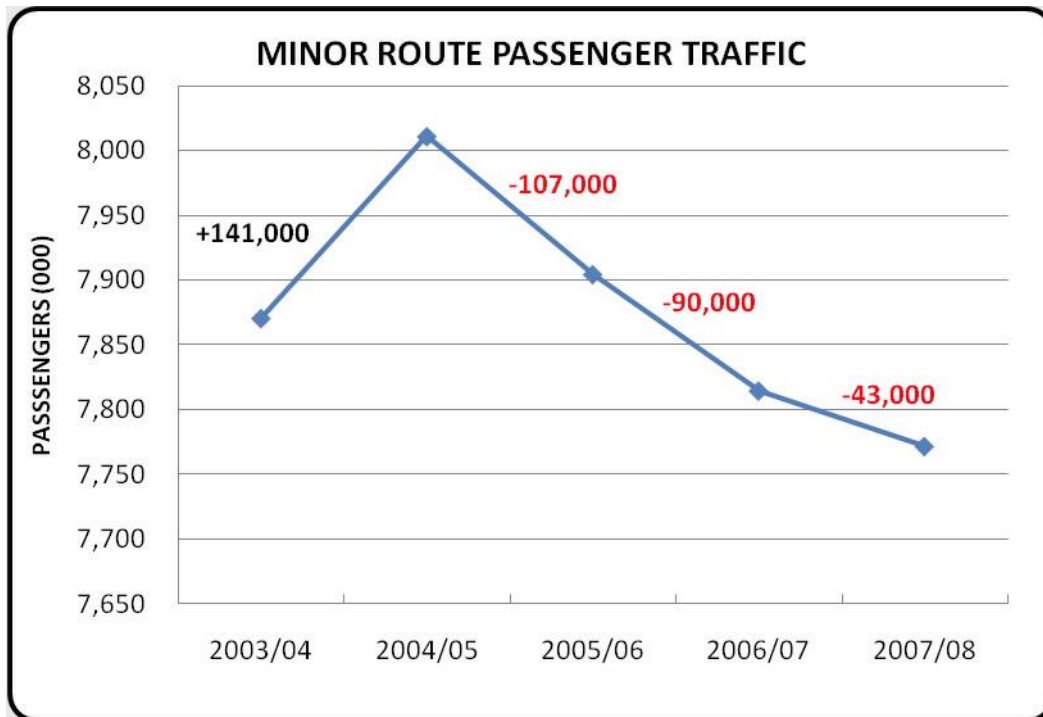
PREPAID FARES



source: BCFerries

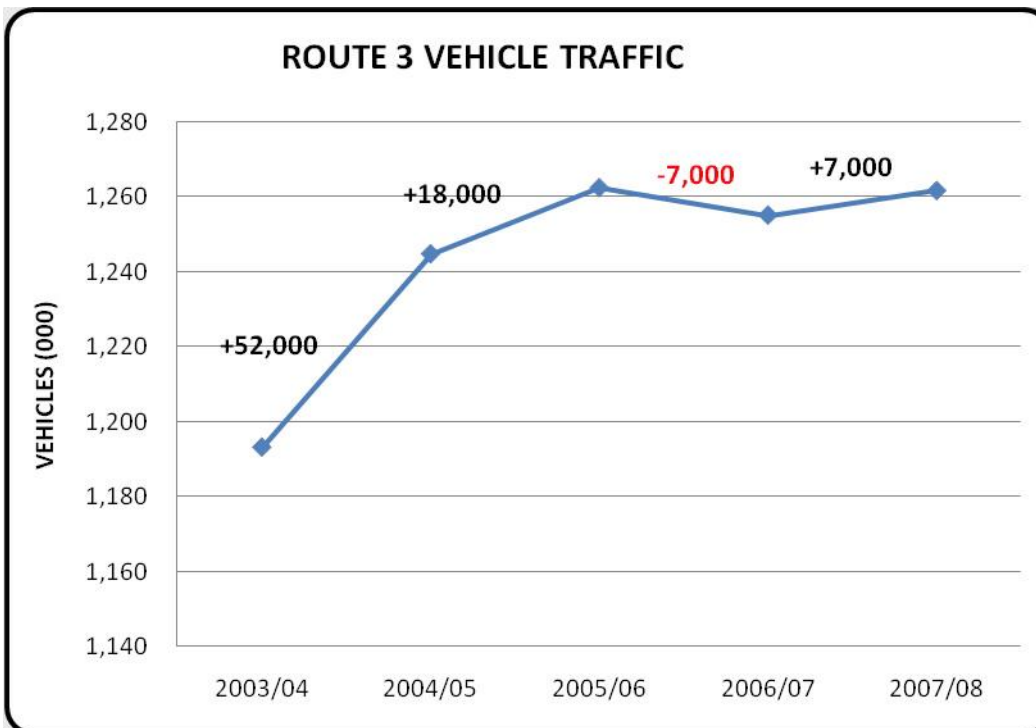
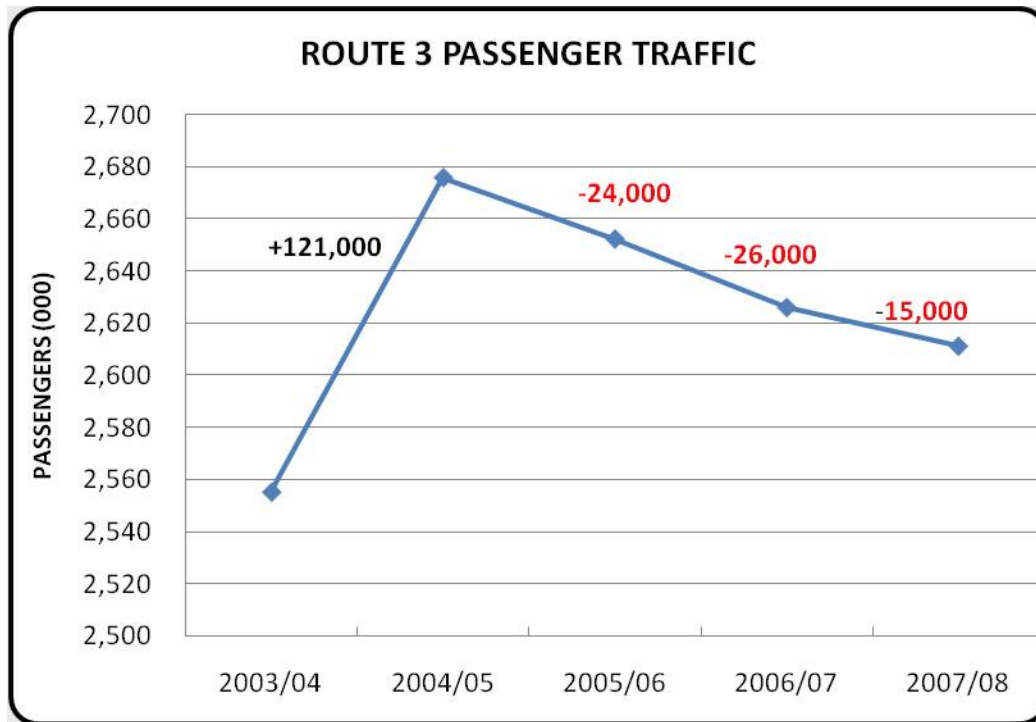
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MINOR ROUTE TRAFFIC, PERFORMANCE TERM 1



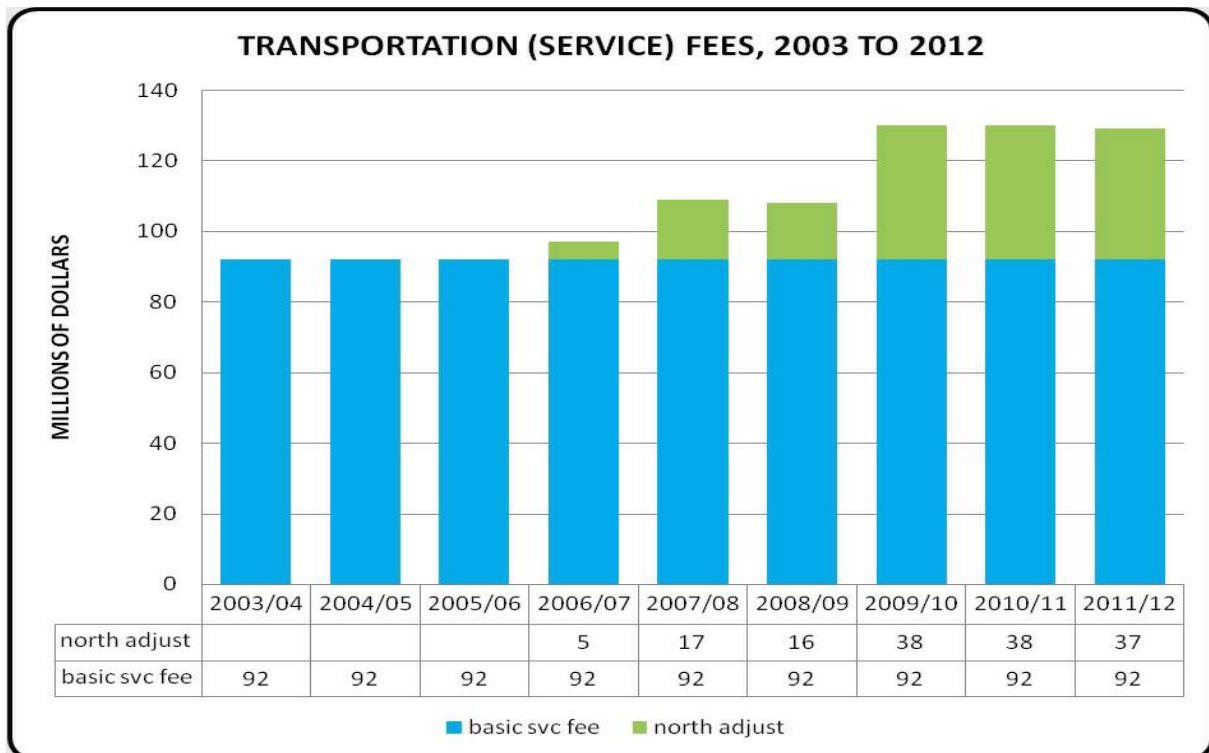
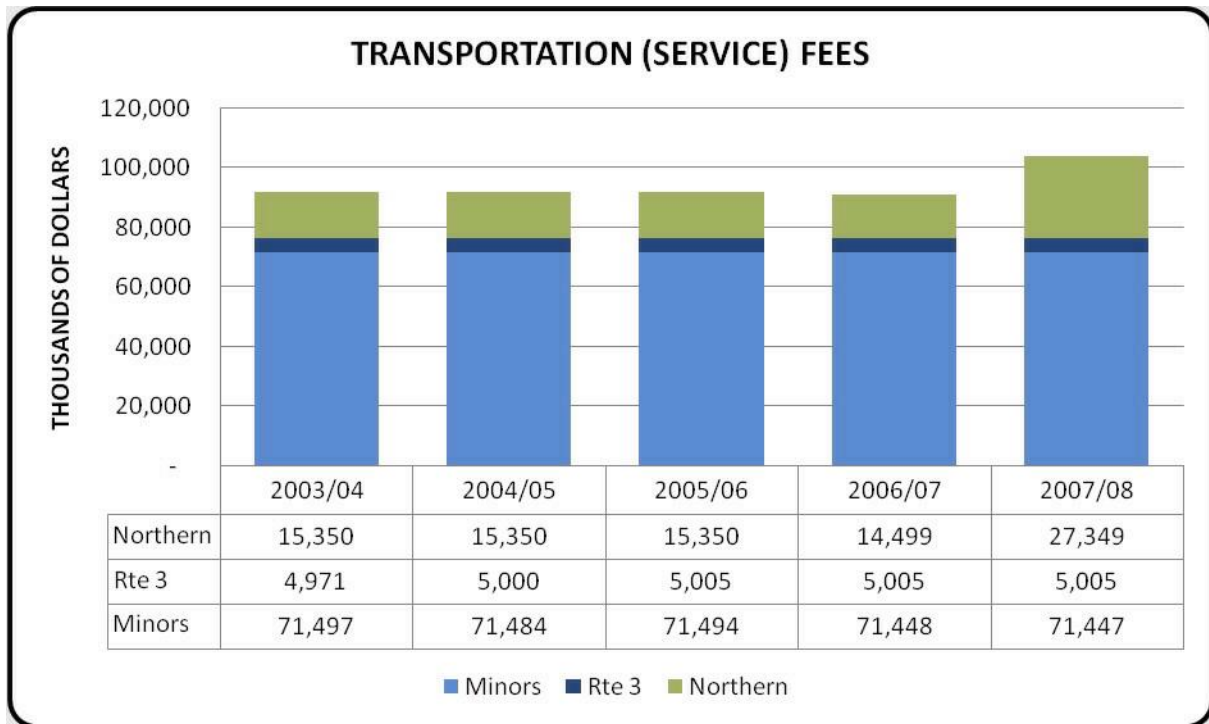
Source: BCFerries Reports to the Commissioner
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ROUTE 3 TRAFFIC, PERFORMANCE TERM 1



Source: BCFerries Annual Reports to the Commissioner
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TRANSPORTATION (SERVICE) FEES

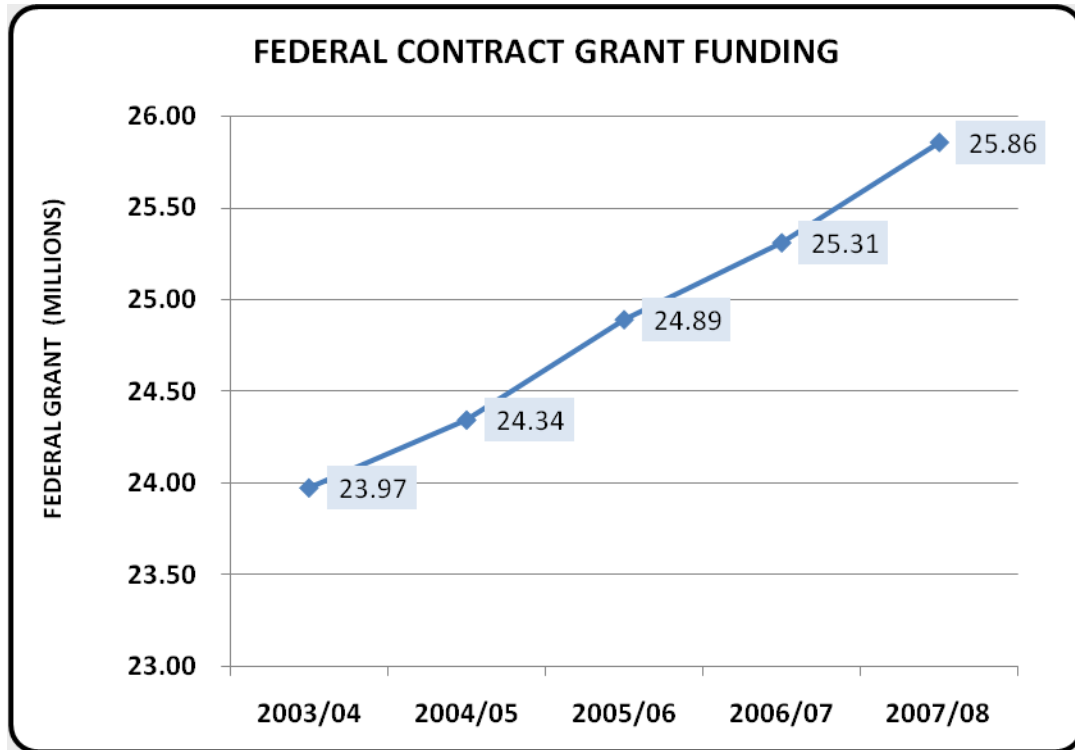


sources: BCFerries reports to the Commissioner

BCFerry Commissioner Q and A, Apr26, 2007, p8

transportationfees080913.doc

FEDERAL CONTRACT GRANT FUNDING TO BC FERRIES



source: BCFerries reports to the Commissioner

fedfunding.doc