PT4, Time to Reset Ferry Fares?

THE COMMITMENT:

As it was in the beginning . . .

NEW FERRIES MODEL MEANS BETTER SERVICE, MORE JOBS, STABLE RATES

(Minister of Transportation) Reid said a revitalized ferry system will mean:

- *improved service and customer choice*
- *guaranteed service levels and fair rates*
- ***economic development** and job creation*

source: Ministry of Transportation news release, Dec 9, 2002

And as it is now . . .

*The Ministry of Transportation and Infrastructure collaborates with other ministries, governments and stakeholders to promote **economic growth** and diversification in support of Government's priority of creating jobs to benefit families in communities across the province. Our integrated transportation network is the backbone of B.C.'s economy and investing in safe and reliable infrastructure will help make our transportation industries more globally competitive and will position them to support the movement of people and goods.*

Source: Ministry of Transportation and Infrastructure, Revised 2013/14 – 2015/16 Service Plan, p 11

Noble words.

THE EXPECTATION:

Southern Gulf Islands residents, business owners and employees were greatly encouraged with the Minister's 2002 announcements for the 'new' ferries model. The promise of economic development offered hope for a healthy future for our ferry dependent community.

The current Ministry Service Plan reinforces that commitment to economic growth through provincial investment in safe and reliable infrastructure. We applaud the wisdom of that long-range policy.

The economies of the Southern Gulf Islands are based on tourism, residential construction and a service industry supporting both residents and visitors. With world-class natural surroundings, one of the gentlest climates in the province, friendly rural charm and situated between Vancouver and Victoria, these islands are ideally suited to benefit from both tourism and retirement migration.

Reliable, affordable ferry service has always been the critical key to sustaining or growing our local economy.

It was assumed that the expanding economies of these islands, based on improved service and ‘fair’ rates, would generate increased ferry traffic. This increased traffic could and would support an increased measure of user pay to support the essential ferry service. Both the communities and the ferry service would become ever more sustainable, a win for all parties. And a reasonable expectation.

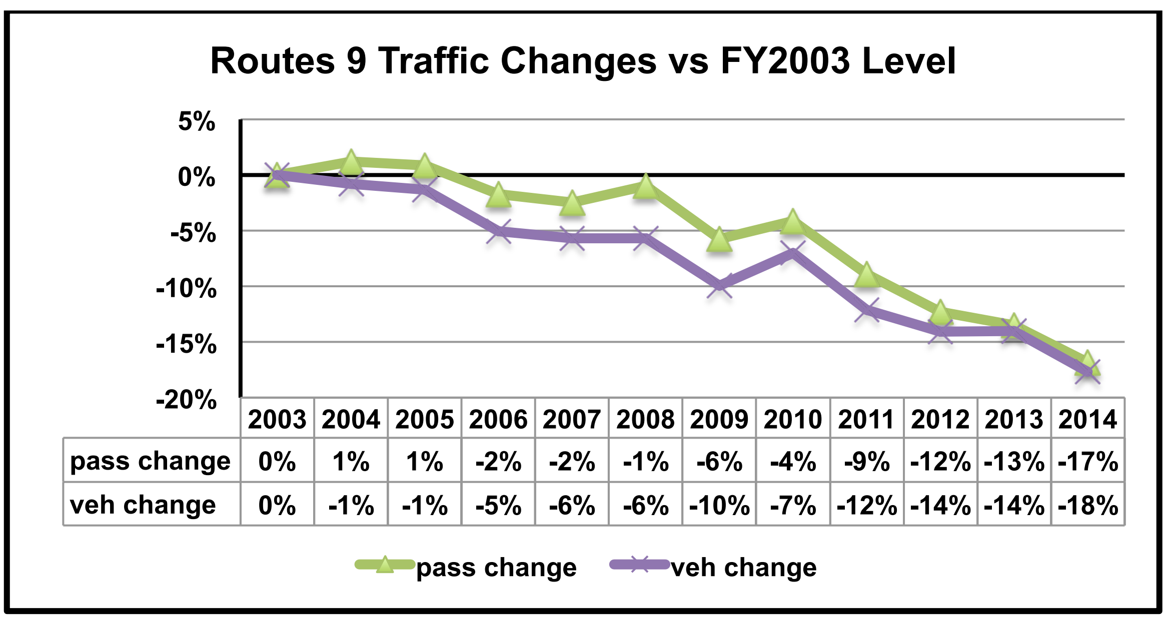
THE CONTEXT:

The Southern Gulf Islands comprise Galiano, Mayne, Pender and Saturna Islands. They are served by Route 9, connecting them, and Salt Spring, to Tsawwassen, and by Route 5, connecting them to Swartz Bay.

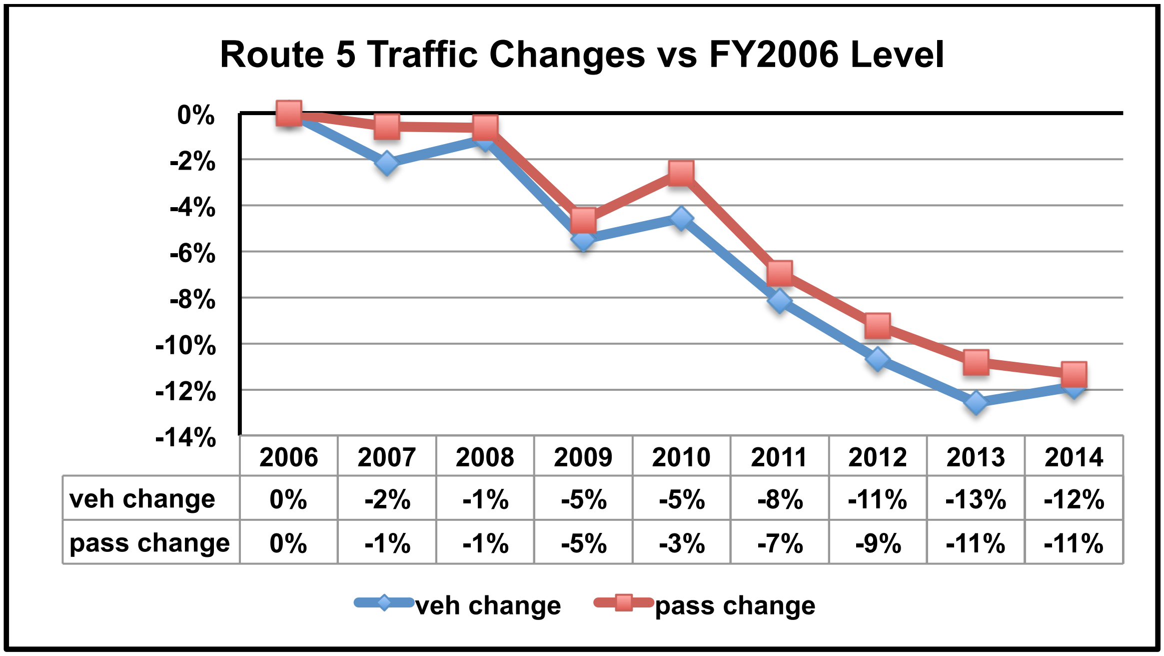
Route 9 sees heavy use on weekends through the spring, summer and fall seasons, transporting visitors and part-time residents from the lower mainland to the islands and back again. The vessel(s) serving this route are regularly fully booked on Fridays departing Tsawwassen and Sundays returning, during the busy season. In FY2014, Route 9 carried 416,259 passengers and 146,614 vehicles (AEQs), generating tariff revenue of $19,728,893.

Route 5 is the bread and butter, life-line route, depended upon by residents travelling to the CRD for medical, business, shopping and recreational purposes. It carries heavy commuter traffic Monday to Friday, year-round. And it carries almost all of the commercial traffic to and from the islands. In FY2014, Route 5 carried 456,697 passengers and 257,145 vehicles (AEQs), generating tariff revenue of $4,931,749.

Contrary to expectations, traffic has fallen on Route 9 by 17% since FY2003.



Similarly, traffic on Route 5 has fallen by 11% since just FY2006, after increasing prior to that.



	2006	2007	2008	2009	2010	2011	2012	2013	2014
veh change	0%	-2%	-1%	-5%	-5%	-8%	-11%	-13%	-12%
pass change	0%	-1%	-1%	-5%	-3%	-7%	-9%	-11%	-11%

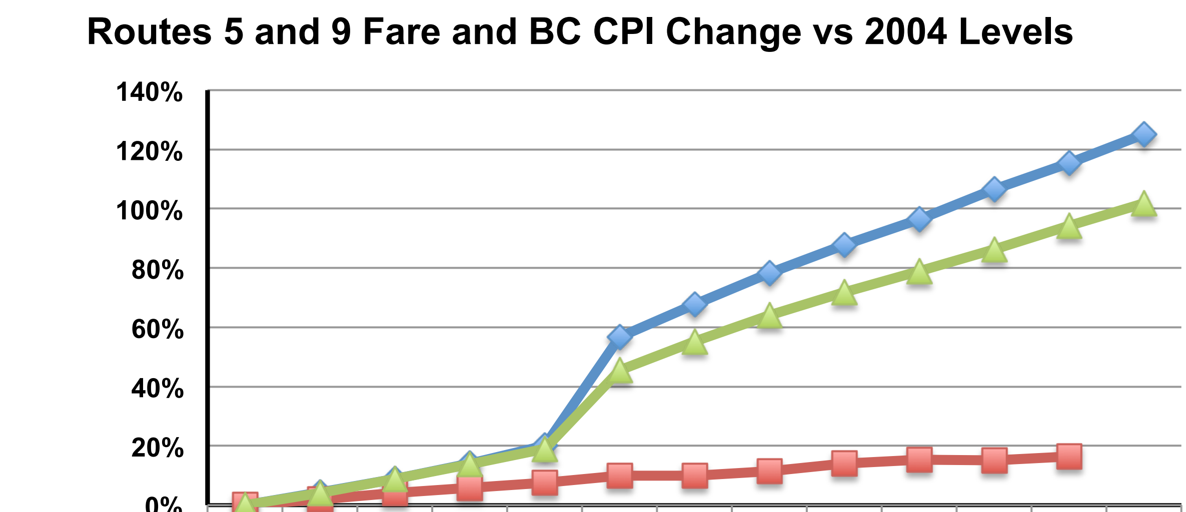
The declining traffic on both routes led to a parallel contraction of the economies of the islands. Unlike mill or mine towns where a primary employer may close down, on our islands, it's death by a thousand cuts. B&B's closing up as their business dwindles below the break even point, the local pub having to close for the winter months, young people leaving the islands as there's no longer sufficient work to survive, contractors with less work as the influx of new residents slows to a trickle, local restaurants open on just weekends through the fall, winter, spring seasons. Real estate sales drying up. And with the cutback in services, fewer visitors are attracted to the islands, exacerbating the problem. These consequences are real. The proprietors tell us that ferry fares are the primary cause. The economies of all four islands have shrunk noticeably over the past decade, and more dramatically in the last half dozen years.

SO WHAT'S THE PROBLEM?

Three things:

- unanticipated fuel price increases
- global meltdown of 2008/09
- no gauge or process to measure the impact of ever-increasing user-pay

The rapid escalation of fuel costs from 2006 to 2008, passed on in full to customers, drove 2008 Route 5 2008 fare hikes of 20% for cash fares (used by visitors) and 30% for pre-paid fares (used by residents). Route 9 saw fare increases from 22% to 26% in that one year. The overheated fuel costs along with the other operating, capital and overhead expenses drove Route 5 fares up 125%, from 2003 to 2015. This was in contrast to a BC CPI increase of 16% up to 2014. Fare increases on Route 9 for weekend and summer traffic drove fares up 102% between 2003 and 2015.



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Rte 5 fares	0%	4%	9%	14%	20%	57%	68%	78%	88%	97%	106%	115%	125%
BC CPI Growth	0%	2%	4%	6%	8%	10%	10%	11%	14%	15%	15%	16%	
Rte 9 fares	0%	4%	9%	14%	19%	46%	55%	64%	72%	79%	86%	94%	102%

Rte 5 fares — BC CPI Growth — Rte 9 fares

The jump in 2008 reflected the existing fuel surcharges being embedded in the base fares, entering PT3. Prior to that, the surcharges had existed outside the fare caps.

As has been stated over and over again – in the Commission report and through the 'engagement' processes of 2012 and 2013 – the ever-increasing fare level is the primary cause of declining traffic, and related shrinking of our island economies. There can be no question the two are directly related.

Back to the causes . . .

Fuel costs: The rapid escalation of fuel costs was an unexpected expense. Given the Province provided no relief in the matter, the full impact of the fuel price increases was absorbed by ferry customers. It seems to have been assumed there was no price elasticity at play, and thus that the fare increases wouldn't affect traffic. A point sometimes overlooked is that an 18% fuel surcharge was applied to SGI fares Aug 1, 2008, exacerbating the effect of the global problems to follow shortly after. This surely helped to kill off FY2009 traffic. That the surcharge was removed four months later did nothing to recover the traffic lost in normally the busiest month of the year and the following shoulder season.

Global meltdown: Most certainly, the world held its collective breath in the fall of 2008 and early 2009. In the southern gulf islands, part-time residents postponed building, the real estate market ground to a halt and the flow of visitors paused dramatically. But that was six years ago. There has been steady recovery since then, evidenced by the sustained growth of the BC GDP, the tourism industry and the general confidence level of the broader community. While the meltdown had a dramatic effect on traffic and on our community's economy at the time, it can no longer be cited as a cause for depressed traffic levels. Especially at a time when traffic should have been recovering with increasing GDP, population and lower mainland tourism.

User-pay impact: As with many new initiatives, there was not a lot of thought given to assessing the success and/or any unintended consequences of the reorganization as it matured. While the general principles seemed reasonable, there was never a statement of 'how much more user-pay' was intended (100% or . . .?). Nor was there any mechanism put in place to determine the economic or social impact on the customers and their communities if in fact the increased user pay became too much to bear. Omission of a gauge to measure the economic impact of this policy has turned out, in our case, to be a serious flaw in the overall plan. Much damage has been suffered by the Southern Gulf Islands economy as a result of the user-pay policy going to and beyond the tipping point, without a feedback loop and danger markers to inform government policy makers. It seems the focus has been solely fixed on government contribution, characterized as a 'subsidy', without regard to the related economies of our and other coastal communities.

RECOMMENDATION:

The 1.9% preliminary fare cap, approaching the inflation rate, was a welcome departure from earlier fare caps. But like a river overflowing its banks, the rate of increase becomes secondary to the absolute level. The economy of the southern gulf islands has contracted substantially as a result of ferry fare levels, particularly in the last six or so years. There is no shortage of evidence. We know from the substantial, sustained traffic increases that resulted from removal of the over-height premiums, that traffic will respond to significant fare reductions.

The Southern Gulf Islands Ferry Advisory Committee, on behalf of the residents and businesses of our community, is recommending that the funding model be adjusted to reset ferry fares in PT4 to provide a substantial fare rollback in the order of 20% to 25%, in order to begin to restore the economy of our islands to their once vibrant level.

This adjustment will no doubt require additional Provincial contribution. Additionally, savings may be realized through judicious service reductions on the Big 3 Major routes. We note in passing that the PT3 service adjustment plan included $4.9M savings to be realized this year on those Major routes. Those service cuts have yet to be identified, even though we're now in that final year.

SGIFAC
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