

Presentation to the BC Ferry Commissioner

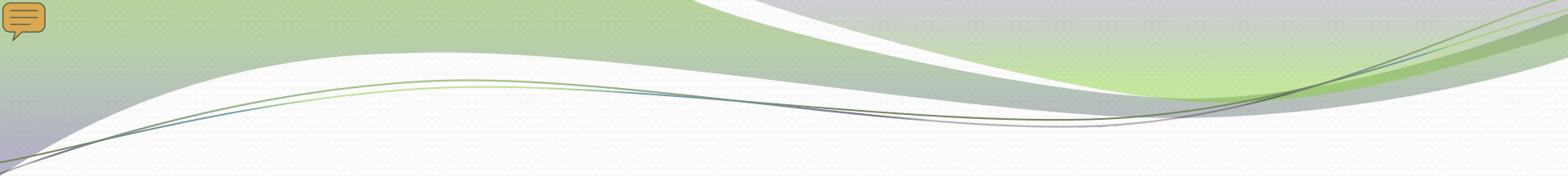
Islands Trust Council

September 15, 2011

The Islands Trust

- Trust Council
 - 26 elected representatives of island communities
- The *Islands Trust Act*
 - To preserve and protect the unique amenities and environment of this area for:
 - 25,000 residents
 - 13,000 non-resident property owners
 - hundreds of thousands of visitors
 - all British Columbians





Trustees involved in ferry issues

- BC Ferries Advisory Committees (7 FACs in Islands Trust Area)
 - 6 Trustees sit on FACs:
 - Joyce Clegg (Gambier) (Chair of Gambier FAC)
 - George Ehring (SSI) (member of Salt Spring FAC)
 - David Graham (Denman) (member of Hornby/Denman FAC)
 - Alison Morse (Bowen) (Vice Chair of Bowen FAC)
 - Tony Law (Hornby) (Chair of Hornby/Denman FAC)
 - Sue French (Thetis) (member of Thetis FAC)
 - FAC Chairs' Committee chaired by Trustee Tony Law (Hornby)
- Coastal Communities Ferry Advisory Committee – advises Ministry of Transportation and Infrastructure
 - chaired by Trustee Tony Law (Hornby)
- Union of BC Municipalities (UBCM) - Ferry Committee
 - Trustee Tony Law represents Islands Trust Executive Committee
- Regional District Chairs – meetings with Commissioner and Minister Lekstrom
 - Chair Sheila Malcolmson

Our ferry routes

- 10 designated ferry routes and 1 unregulated route serve 14 island communities
- Ferry routes serving our islands feed into 4 main ferry routes
- The ferry system is an essential lifeline for residents, property owners, businesses and tourists



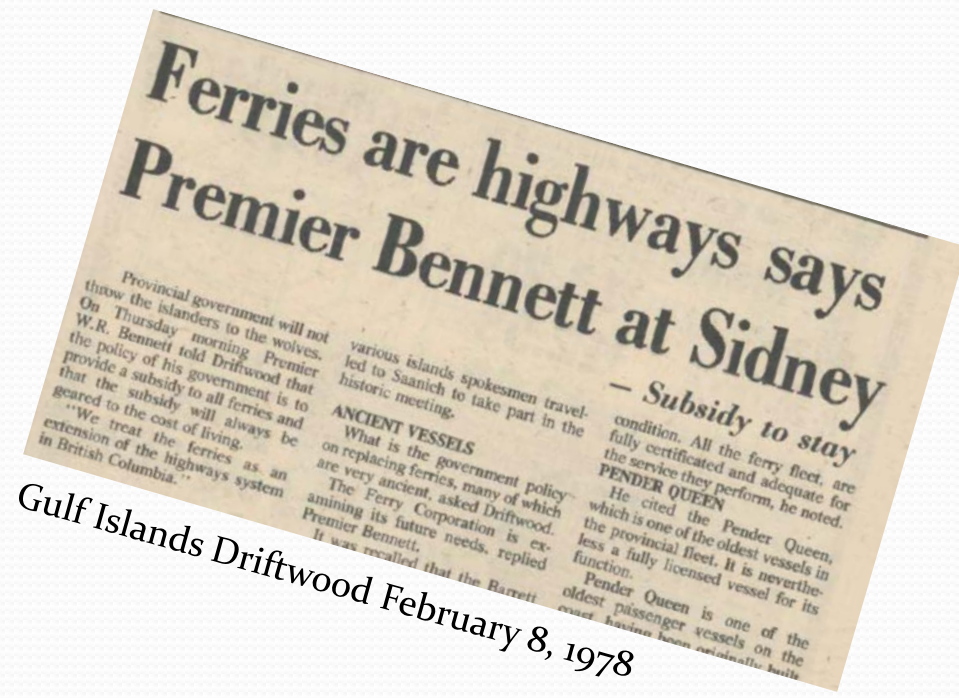
A provincial asset

- A 2011 Ipsos Reid poll indicates:
 - 86% of British Columbians agree that the Gulf Islands are a special part of British Columbia
 - 83% of British Columbians believe the BC government should take action to ensure the islands are preserved and protected



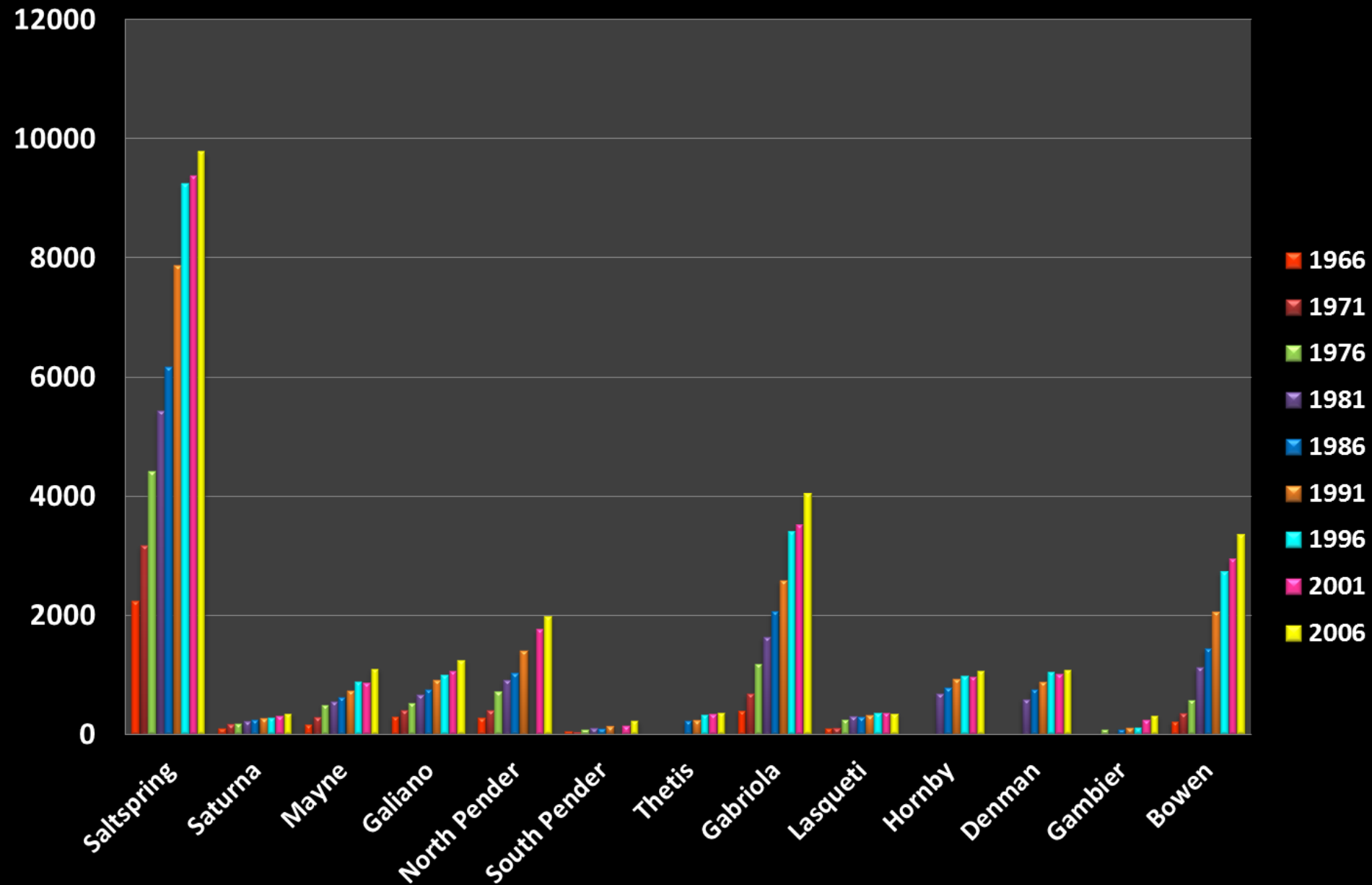
Some History...

- Island development has occurred in close partnership with BC Ferries for 50 years



Island Trust Area -- Population Growth (1966 - 2006)

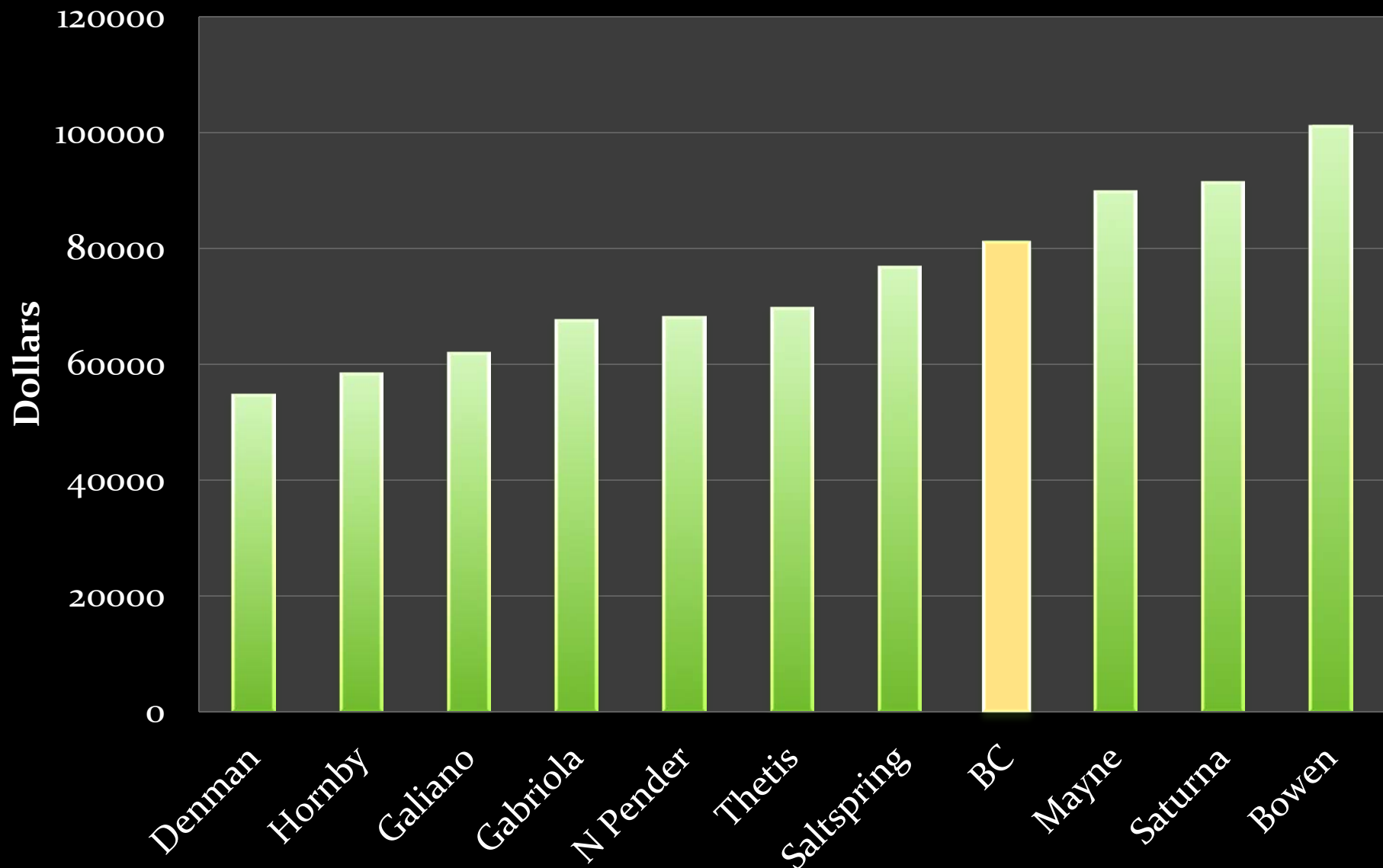
Source: Statistics Canada - Census 1966 - 2006





Islands Trust Area -- Average Family Income 2005

Source: Statistics Canada - 2006 Census



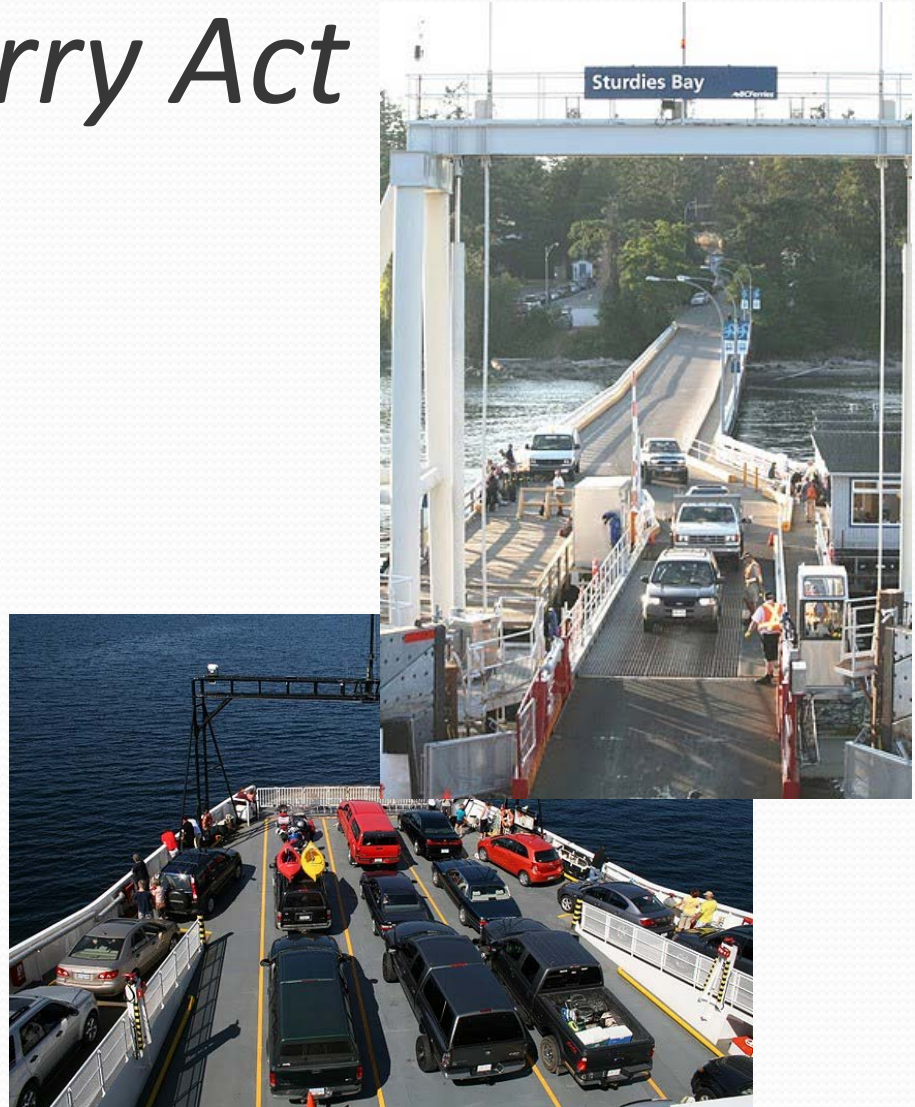
A critical lifeline...

- Over decades, the BC Ferry system has become to the Gulf Islands what the Sea to Sky Highway is to Whistler and what the Coquihalla Highway is to the BC interior.

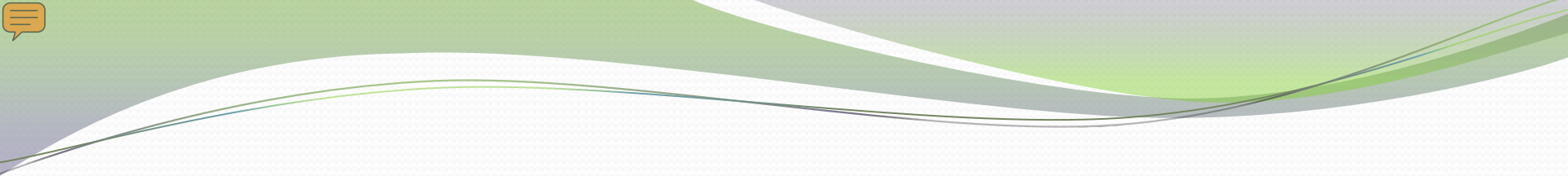


The *Coastal Ferry Act*

- In 2003, the *Coastal Ferry Act* transformed our public transportation network into a private company, wholly-owned by the Province of BC.
- Since then, provincial funding has been referred to as a 'subsidy', somehow implying it is not a legitimate government contribution to essential provincial infrastructure.



Photos: Island Transport Solutions

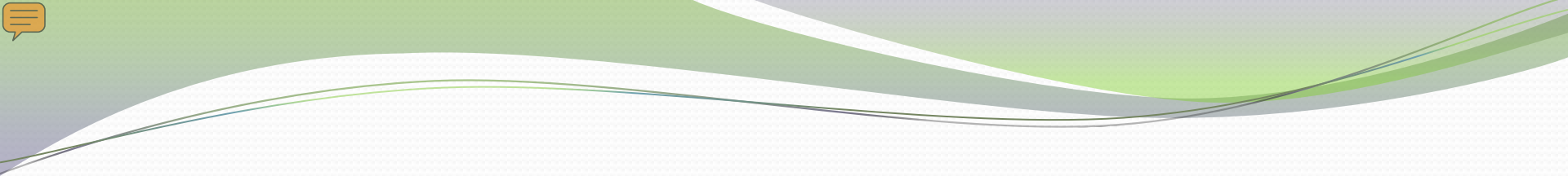


Early promise of the new act

- *“The primary intent of this bill is to ensure that our coastal ferry service can flourish and support our economy”*
- *“We all want the service to succeed; we all need it. It is fundamental to local economies; and is one of the most prominent symbols of our lifestyle here on the west coast....”*
- *“Most of all, BC wants BC Ferries to meet its potential, to sail on time, to have clean facilities, a good selection of food choices and friendly services and , of course, to remain affordable”*

Hon. Judith Reid, Minister of Transportation, on 2nd reading of *Coastal Ferry Act*

Hansard, March 24, 2003; 2003 Legislative Session, 4th Session, 37th Parliament



Early promise (cont'd)...

- “...this piece of legislation ...gives assurances to people as we move forward that their ferry service will be there for them. *They will know what rates they’re going to pay so they can make their plans. The industries that use the ferries will be better served.*”
- “I believe this will lead us into a time where *we can look forward to more people travelling on the ferries* instead of feeling like the ferries were a bottleneck to our economic growth and prosperity.”

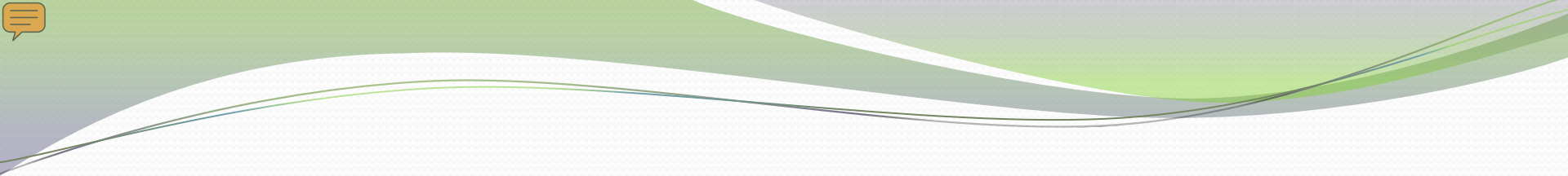
Hon. Judith Reid, Minister of Transportation, on 2nd reading of *Coastal Ferry Act*

Hansard, March 24, 2003; 2003 Legislative Session, 4th Session, 37th Parliament



Early warnings...

- Islands Trust Position paper re *Coastal Ferry Act* (2006)
 - Identified potential social and economic impacts if ferry fares rose significantly after 2006
 - Predicted loss of ridership and impacts on the ferry system's sustainability if fares increased
 - Recommended an analysis of socio-economic impacts on ferry dependent communities before significant fare increases or changes to service levels



The warnings increase...

- UBCM Resolution
Sponsored by the Islands
Trust

“request that the British Columbia Ministry of Transportation and Infrastructure work with coastal communities and BC Ferries to develop a strategy for the minor southern coastal ferry routes, as proposed by the Ferry Advisory Committee Chairs”

- Endorsed by 2009
UBCM conference

- ‘Ominous Clouds’ –
November 2010
- ‘Ferry Fares – the
Problem, the Impacts,
Solutions’ – May 2011
 - Reports prepared for the
Minister of Transportation
and Infrastructure by the
Ferry Advisory Committee
Chairs

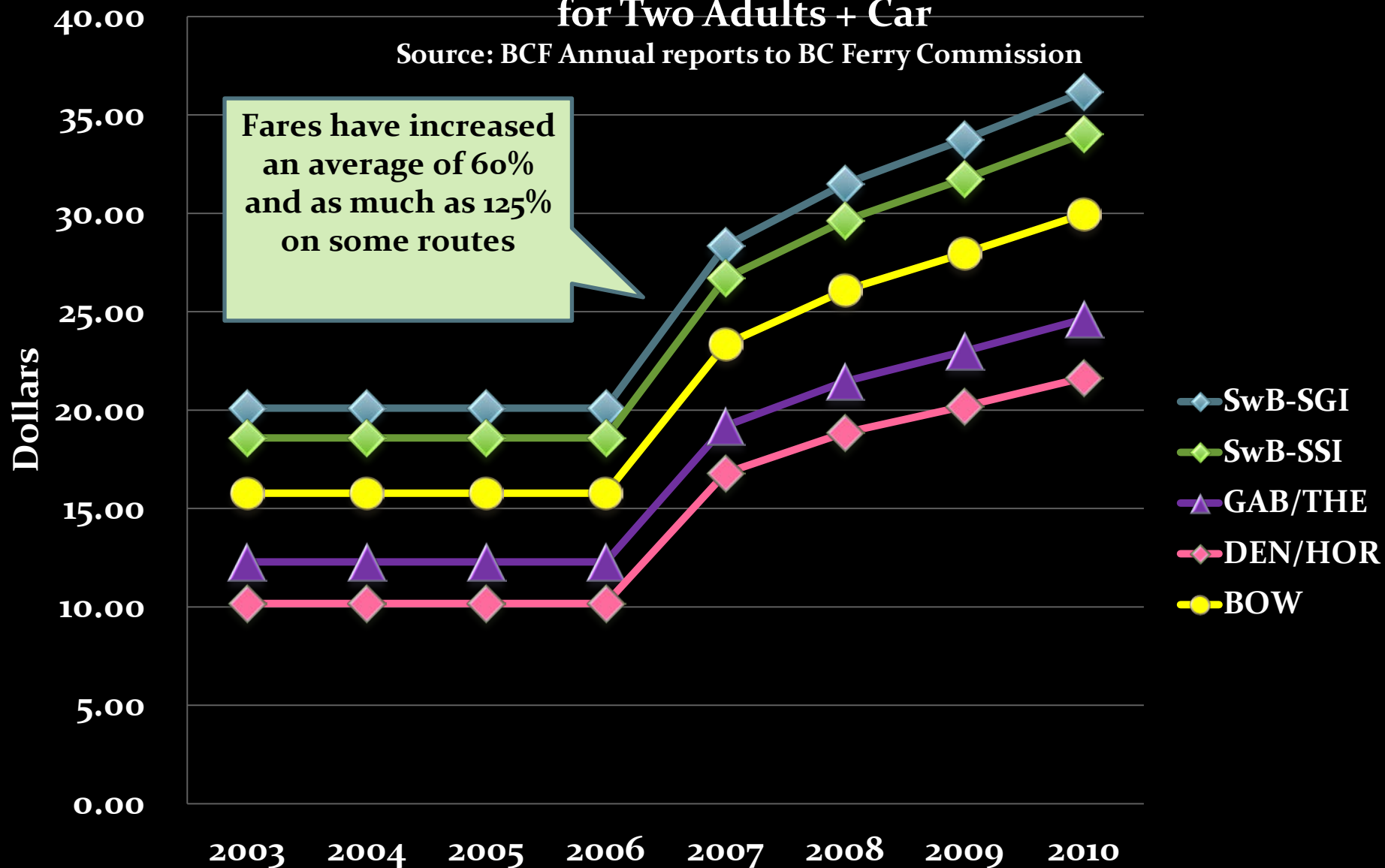
Sample BC Ferry Fares on Minor Routes - 2003-2011

Round Trip Pre-Paid (Commuter Discount)

for Two Adults + Car

Source: BCF Annual reports to BC Ferry Commission

Fares have increased
an average of 60%
and as much as 125%
on some routes





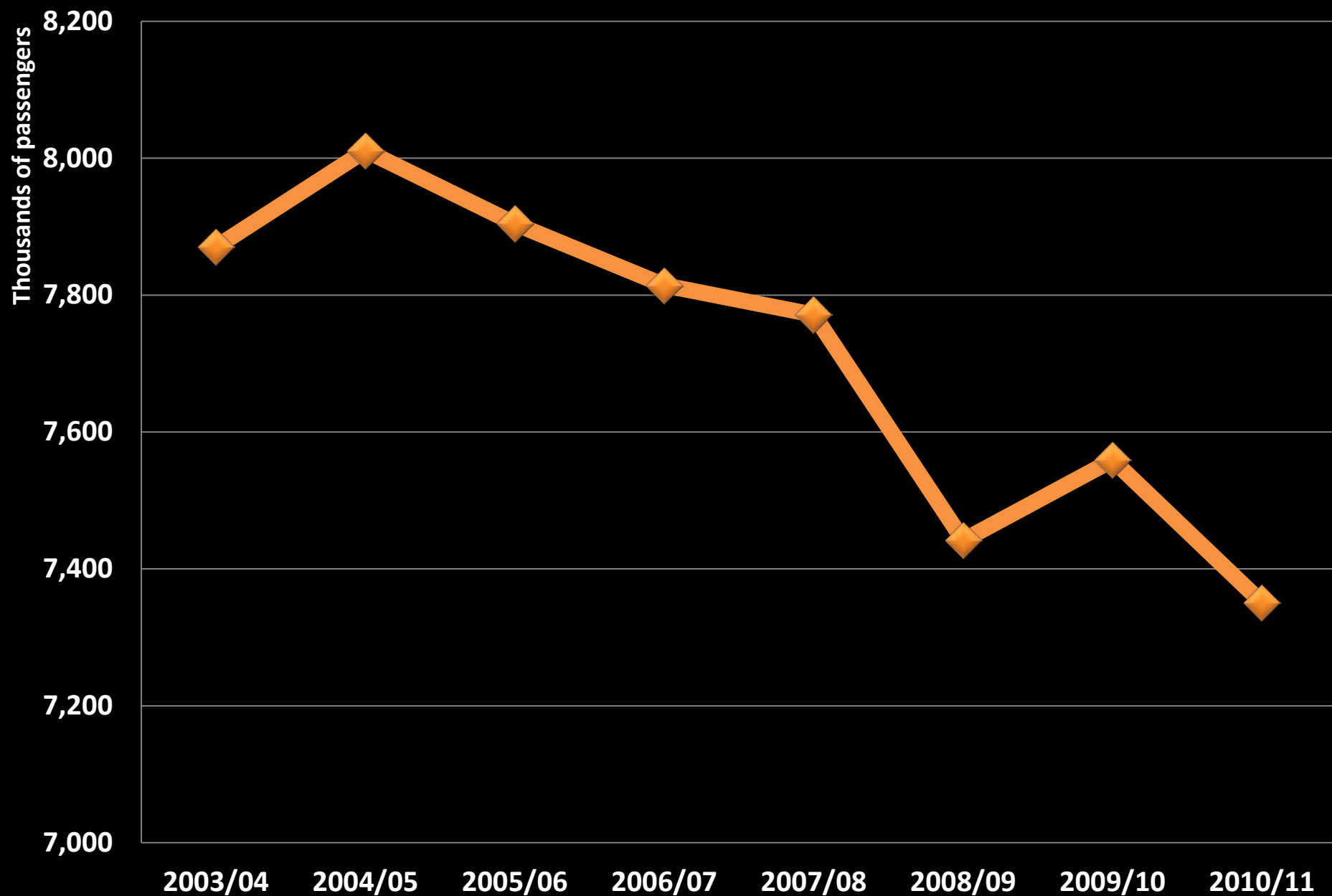
BC Ferries - Minor Route VEHICLE Traffic - 2003-2011

Source: BCF Annual reports to BC Ferry Commission



BC Ferries - Minor Route PASSENGER Traffic - 2003-2011

Source: BCF Annual Reports to BC Ferry Commission

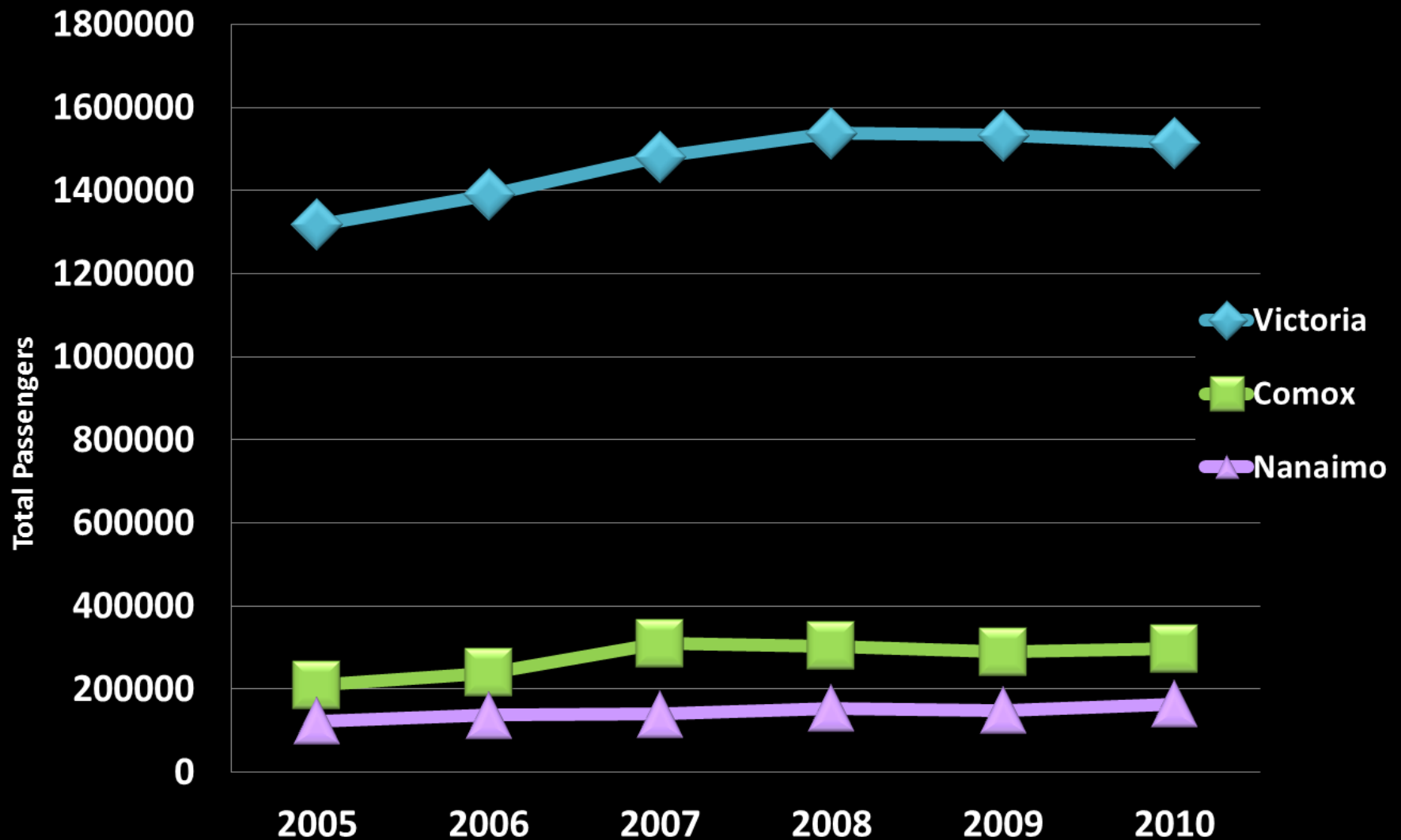


Vancouver Island Airports - Total Passengers 2005-2010

Sources: <http://www.victoriaairport.com/facts-and-stats>

Comox Airport Commission, Accountability Reports

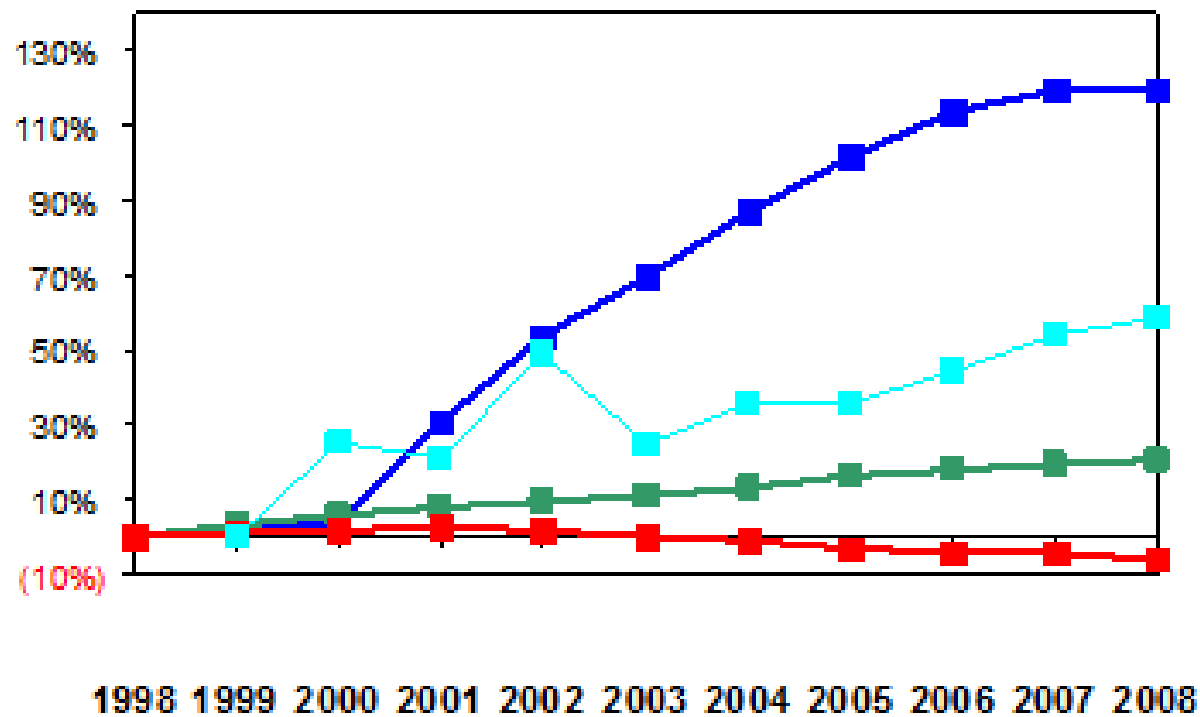
Nanaimo Airport, pers. comm.

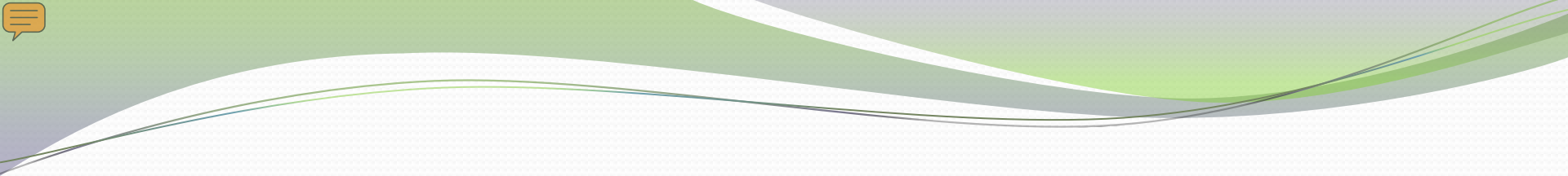


San Juan Domestic Route Ridership v s Population v s Fares

% Change - Adjusted for Inflation

- Car & Driver Fare (Non-Peak)
- County Population
- Total Ridership
- Lodging Tax





Fares vs ridership

- Fare increases = ridership drops
- Increased fares create a substantial barrier to social and economic survival of families and communities long established on the islands

“We are convinced that high fares are the primary cause of the continuing decline in traffic on the non-major routes, and in particular, on the minor routes.”

Ferry Advisory Committee Chairs
Presentation to Minister Blair Lekstrom,
May 18, 2011

Economic Community Impacts

- Increased costs of goods and services brought to the islands
- Increased costs of accessing goods and services not available on the islands
 - Medical
 - Educational
 - Recreational
- Tourism is down, day-trippers are disappearing
- Uncertain business climate
- Small business closing, downsizing or relocating due to decreased business margins
- New businesses are not opening
- Agriculture sector suffering from inability to export products

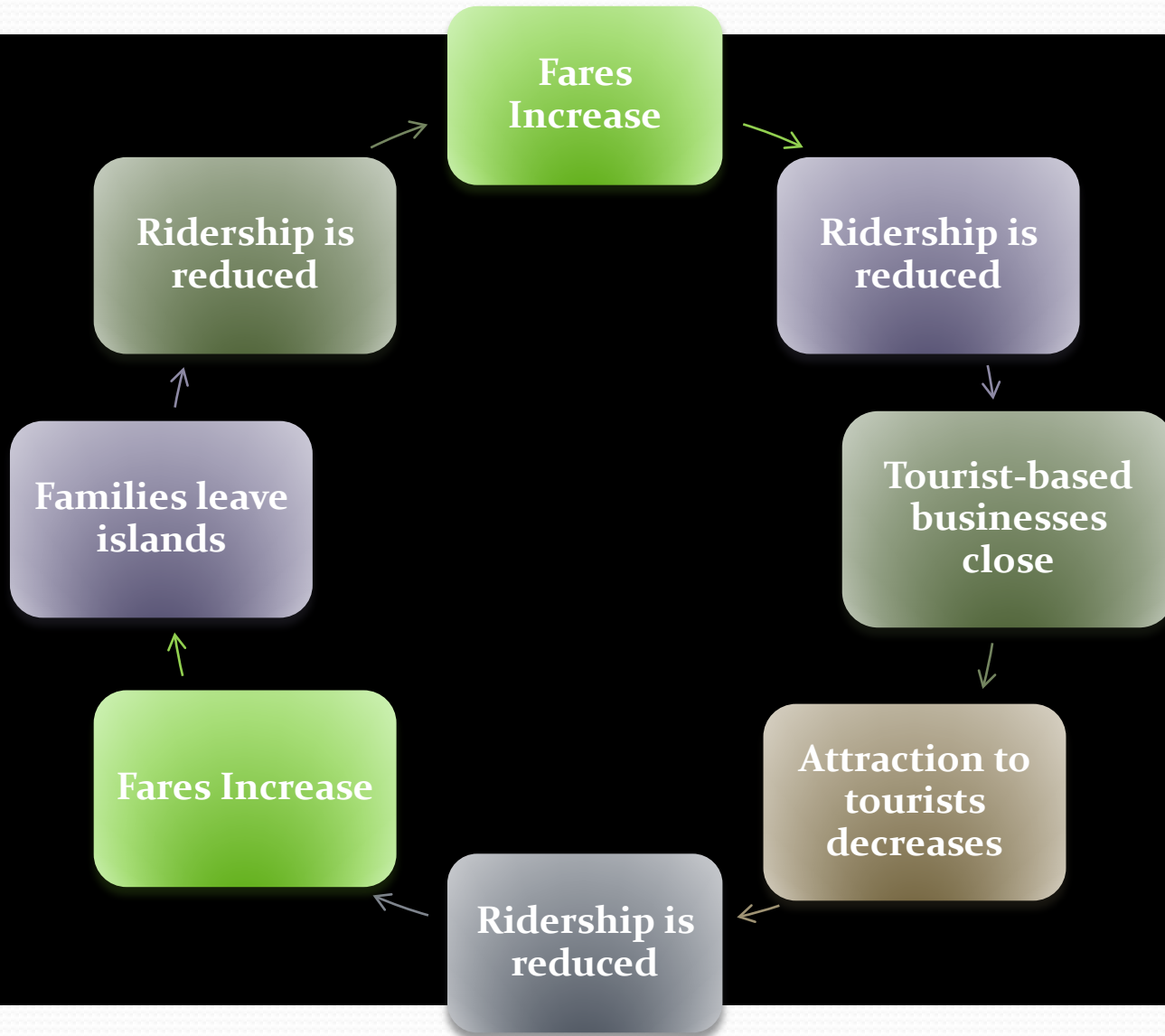
Social Community Impacts

- Younger residents leaving islands due to costs and declining opportunities for youth
- Declining school enrollments
- Labour shortages
- Loss of volunteers and related community services
- Separation of families
- Growing isolation of islanders from the rest of BC

“Diversity, the lifeblood that fuels island life, is also at risk. As diversity is lost, so are community integration, civic spirit, economic vibrancy and collective identity. What follows might be the death of island living as we know it.”

Dr. Philip Vannini
Royal Roads University

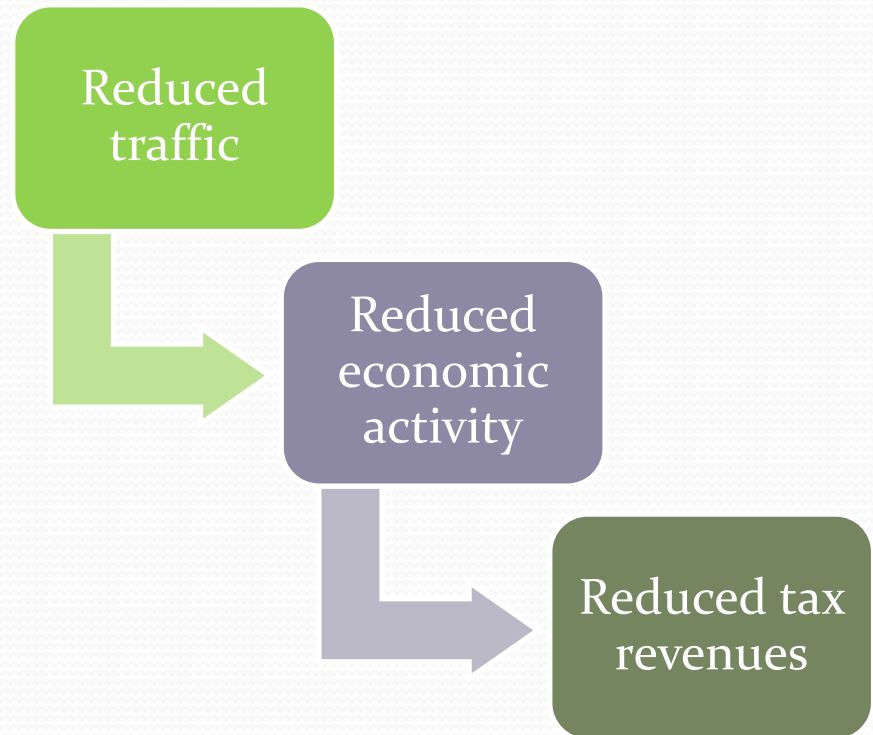
Negative Cycle of Impacts



Impacts on the BC economy

- *“We may now be at the point that savings in public ferry funding are offset by lost tax revenue, a false economy. And this raises a question, why is coastal ferry service different from other forms of essential transportation in BC, in which government invests more readily?”*

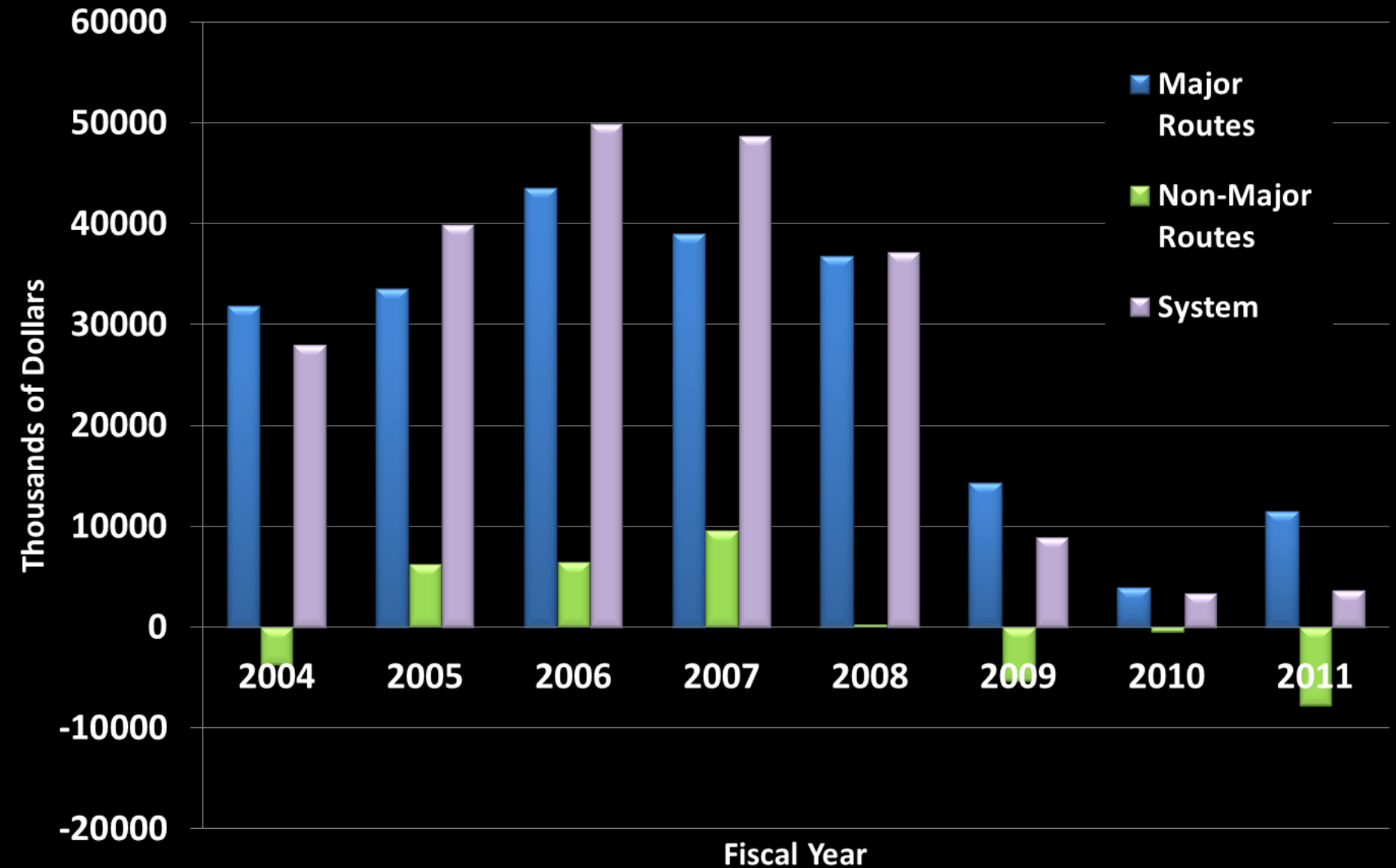
Harold Swierenga
Chair, Salt Spring Island
Ferry Advisory Committee



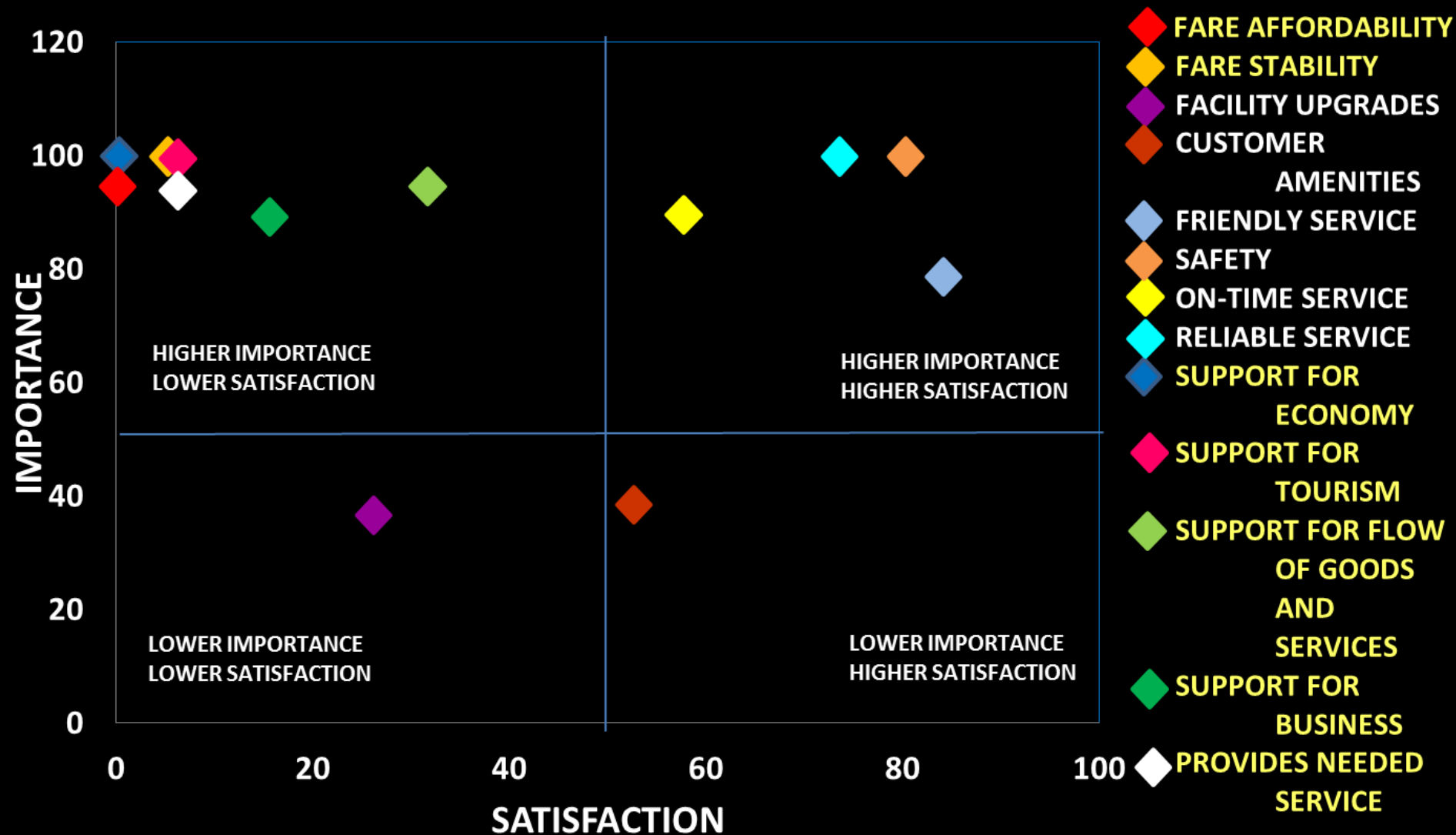
BC Ferries Net Revenue (\$000)

2004-2011 (fiscal years)

Source: BC Ferries - Annual Reports to the BC Ferries Commissioner



Islands Trust - Trustee Survey re Community Satisfaction vs Importance of BC Ferry Services



Recommendations

- Short term
 - Recommend a significant increase in the provincial contribution, to enable drastic and immediate fare cuts and fare freezes.
 - Keep subsequent increases at a level consistent with the Consumer Price Index, possibly by amending the Coastal Ferry Act to lock in the proportion of costs that the province will contribute.
- Long term
 - Recommend changes to the Coastal Ferry Act that will align the coastal ferry service with the three priorities of the new provincial agenda:
 - *Families, open government and jobs*

Recommendations

- Long Term (cont'd)
 - Recommend changes to the Coastal Ferry Act that will include the coastal ferry service within the purposes of the Ministry of Transportation and Infrastructure, as defined in its 2011/12 – 2013/14 Service Plan:
 - *“...innovative, forward-thinking transportation strategies that move people and goods safely, and fuel our provincial economy. Improvement of vital infrastructure is a key goal, along with enhancing the competitiveness of BC’s transportation industries, reducing greenhouse gases and providing BC with a safe and reliable highway system.”*



MV Osprey 2000

Kootenay Lake Ferry

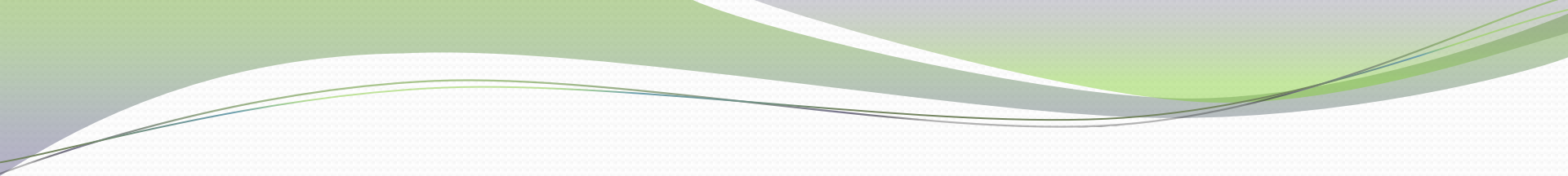
- One of 14 free ferries operated by the Ministry of Transportation and Infrastructure in the BC interior

Recommendations

- Long Term (cont'd)
 - Recommend changes to the Coastal Ferry Act that recognize BC Ferries as an essential part of the public infrastructure, similar to provincial highway.
 - Develop a long term strategy for BC Ferries' service to the minor routes that considers the socio-economic impact of ferry fares and schedules and the sustainability of the ferry service itself.
 - Identify, in consultation with Ferry Advisory Committees, communities and local governments, options for modifying service to increase efficiency while meeting the needs of ferry-dependent communities.

A final message

- The impacts of rising ferry fares on our communities has been drastic.
- Fares have risen continually with no assessment of the socio-economic impacts on our communities.
- The *Coastal Ferry Act* has failed to deliver on the public interests that led to its introduction.
- A lack of response from government to date leads to serious concerns about the ability of communities to recover.
- The BC Ferry system is an essential part of BC's transportation network. We are vitally interested in seeing the system itself survive in a sustainable manner.
- Urgent action is needed – immediate action now, while longer term solutions are developed.



Acknowledgments

- BC Ferries Advisory Committees
- Ferry Advisory Committee Chairs

1. How SATISFIED do you think islanders are with the affordability of minor route ferry fares?

		Response Percent	Response Count
Extremely satisfied		0.0%	0
Moderately satisfied		0.0%	0
Neither satisfied nor dissatisfied		0.0%	0
Moderately dissatisfied		36.8%	7
Extremely dissatisfied		63.2%	12
answered question			19
skipped question			1

2. How IMPORTANT do you think it is to islanders that minor route ferry fares be affordable?

		Response Percent	Response Count
Not at all important		0.0%	0
Moderately unimportant		5.3%	1
Neither important nor unimportant		0.0%	0
Moderately important		0.0%	0
Extremely important		94.7%	18
answered question			19
skipped question			1

3. How SATISFIED do you think islanders are with the stability and predictability of minor route ferry fares?

		Response Percent	Response Count
Extremely satisfied		0.0%	0
Moderately satisfied		5.3%	1
Neither satisfied nor dissatisfied		0.0%	0
Moderately dissatisfied		36.8%	7
Extremely dissatisfied		57.9%	11
answered question			19
skipped question			1

4. How IMPORTANT do you think it is to islanders that minor route ferry fares be stable and predictable?

		Response Percent	Response Count
Not at all important		0.0%	0
Moderately unimportant		0.0%	0
Neither important nor unimportant		0.0%	0
Moderately important		10.5%	2
Extremely important		89.5%	17
answered question			19
skipped question			1

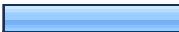
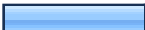
5. How SATISFIED do you think islanders are with any upgrading that has been made to BC Ferries' minor route terminal facilities and ferries?

		Response Percent	Response Count
Extremely satisfied		0.0%	0
Moderately satisfied		26.3%	5
Neither satisfied nor dissatisfied		5.3%	1
Moderately dissatisfied		42.1%	8
Extremely dissatisfied		26.3%	5
answered question			19
skipped question			1

6. How IMPORTANT do you think it is to islanders that terminals and ferries on BC Ferries' minor routes be upgraded?

		Response Percent	Response Count
Not at all important		21.1%	4
Moderately unimportant		31.6%	6
Neither important nor unimportant		10.5%	2
Moderately important		21.1%	4
Extremely important		15.8%	3
answered question			19
skipped question			1

7. How SATISFIED do you think islanders are with the customer amenities (parking, washrooms, lounges) provided on BC Ferries' minor route terminals and ferries?

		Response Percent	Response Count
Extremely satisfied		10.5%	2
Moderately satisfied		42.1%	8
Neither satisfied nor dissatisfied		26.3%	5
Moderately dissatisfied		21.1%	4
Extremely dissatisfied		0.0%	0
answered question			19
skipped question			1

8. How IMPORTANT do you think islanders believe customer amenities are on BC Ferries' minor route terminals and ferries?

		Response Percent	Response Count
Not at all important		33.3%	6
Moderately unimportant		22.2%	4
Neither important nor unimportant		5.6%	1
Moderately important		33.3%	6
Extremely important		5.6%	1
answered question			18
skipped question			2

9. How SATISFIED do you feel islanders are with the friendliness of the service on BC Ferries' minor routes?

		Response Percent	Response Count
Extremely satisfied		31.6%	6
Moderately satisfied		52.6%	10
Neither satisfied nor dissatisfied		10.5%	2
Moderately dissatisfied		5.3%	1
Extremely dissatisfied		0.0%	0
answered question			19
skipped question			1

10. How IMPORTANT do you think islanders believe friendly service is on the minor routes?

		Response Percent	Response Count
Not at all important		0.0%	0
Moderately unimportant		15.8%	3
Neither important nor unimportant		5.3%	1
Moderately important		36.8%	7
Extremely important		42.1%	8
answered question			19
skipped question			1

11. How SATISFIED do you think islanders are with ferry safety on the minor routes?

		Response Percent	Response Count
Extremely satisfied		35.0%	7
Moderately satisfied		45.0%	9
Neither satisfied nor dissatisfied		5.0%	1
Moderately dissatisfied		15.0%	3
Extremely dissatisfied		0.0%	0
answered question			20
skipped question			0

12. How IMPORTANT do you think islanders believe ferry safety is on the minor routes?

		Response Percent	Response Count
Not at all important		0.0%	0
Moderately unimportant		0.0%	0
Neither important nor unimportant		0.0%	0
Moderately important		26.3%	5
Extremely important		73.7%	14
answered question			19
skipped question			1

13. How SATISFIED do you think islanders are that minor route ferries sail on time?

		Response Percent	Response Count
Extremely satisfied		5.3%	1
Moderately satisfied		52.6%	10
Neither satisfied nor dissatisfied		5.3%	1
Moderately dissatisfied		26.3%	5
Extremely dissatisfied		10.5%	2
answered question			19
skipped question			1

14. How IMPORTANT is it to islanders that minor route ferries sail on time?

		Response Percent	Response Count
Not at all important		0.0%	0
Moderately unimportant		10.5%	2
Neither important nor unimportant		0.0%	0
Moderately important		36.8%	7
Extremely important		52.6%	10
answered question			19
skipped question			1

15. How SATISFIED do you believe islanders are with the reliability of ferry service on the minor routes (i.e. lack of service interruptions)?

		Response Percent	Response Count
Extremely satisfied		10.5%	2
Moderately satisfied		63.2%	12
Neither satisfied nor dissatisfied		5.3%	1
Moderately dissatisfied		21.1%	4
Extremely dissatisfied		0.0%	0
answered question			19
skipped question			1

16. How IMPORTANT do you think it is to islanders that the ferry service on minor routes is reliable?

		Response Percent	Response Count
Not at all important		0.0%	0
Moderately unimportant		5.3%	1
Neither important nor unimportant		0.0%	0
Moderately important		10.5%	2
Extremely important		84.2%	16
answered question			19
skipped question			1

17. How SATISFIED do you think islanders are that the BC Ferry service operates in a way that provides overall support to their island economy since the Coastal Ferry Act was enacted in 2003?

		Response Percent	Response Count
Extremely satisfied		0.0%	0
Moderately satisfied		0.0%	0
Neither satisfied nor dissatisfied		10.5%	2
Moderately dissatisfied		26.3%	5
Extremely dissatisfied		63.2%	12
answered question			19
skipped question			1

18. How IMPORTANT do you think it is to islanders that the BC Ferry service operates in a way that provides overall support to their island economy?

		Response Percent	Response Count
Not at all important		0.0%	0
Moderately unimportant		0.0%	0
Neither important nor unimportant		0.0%	0
Moderately important		10.5%	2
Extremely important		89.5%	17
answered question			19
skipped question			1

19. How SATISFIED do you think islanders are that BC Ferries' minor routes operate in a way that supports the islands' tourism industry?

		Response Percent	Response Count
Extremely satisfied		0.0%	0
Moderately satisfied		5.3%	1
Neither satisfied nor dissatisfied		5.3%	1
Moderately dissatisfied		57.9%	11
Extremely dissatisfied		31.6%	6
answered question			19
skipped question			1

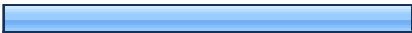
20. How IMPORTANT do you think it is to islanders that BC Ferries' minor routes operate in a way that supports the islands' tourism industry?

		Response Percent	Response Count
Not at all important		0.0%	0
Moderately unimportant		0.0%	0
Neither important nor unimportant		0.0%	0
Moderately important		57.9%	11
Extremely important		42.1%	8
answered question			19
skipped question			1

21. How SATISFIED do you think islanders are that BC Ferries' minor routes operate in a way that enables the flow of goods and services to and from their island?

		Response Percent	Response Count
Extremely satisfied		0.0%	0
Moderately satisfied		31.6%	6
Neither satisfied nor dissatisfied		15.8%	3
Moderately dissatisfied		36.8%	7
Extremely dissatisfied		15.8%	3
answered question			19
skipped question			1

22. How IMPORTANT do you think it is to islanders that BC Ferries' minor routes operate in a way that enables the flow of goods and services to and from the islands?

		Response Percent	Response Count
Not at all important		0.0%	0
Moderately unimportant		0.0%	0
Neither important nor unimportant		5.6%	1
Moderately important		33.3%	6
Extremely important		61.1%	11
answered question			18
skipped question			2

23. How SATISFIED do you think islanders are that BC Ferries' minor routes operate in a way that supports the businesses that depend upon them?

		Response Percent	Response Count
Extremely satisfied		0.0%	0
Moderately satisfied		15.8%	3
Neither satisfied nor dissatisfied		15.8%	3
Moderately dissatisfied		52.6%	10
Extremely dissatisfied		15.8%	3
answered question			19
skipped question			1

24. How IMPORTANT do you think it is to islanders that BC Ferries' minor routes operate in a way that supports the businesses that depend upon them?

		Response Percent	Response Count
Not at all important		0.0%	0
Moderately unimportant		0.0%	0
Neither important nor unimportant		10.5%	2
Moderately important		26.3%	5
Extremely important		63.2%	12
answered question			19
skipped question			1

25. How SATISFIED do you think islanders are that the Coastal Ferry Act has protected consumers and ferry-dependent communities and provided them with the service they need?

		Response Percent	Response Count
Extremely satisfied		0.0%	0
Moderately satisfied		5.3%	1
Neither satisfied nor dissatisfied		5.3%	1
Moderately dissatisfied		26.3%	5
Extremely dissatisfied		63.2%	12
answered question			19
skipped question			1

26. How IMPORTANT do you think it is to islanders that the BC Ferry service protects consumers and ferry-dependent communities and provides them with the service they need?

		Response Percent	Response Count
Not at all important		0.0%	0
Moderately unimportant		0.0%	0
Neither important nor unimportant		5.3%	1
Moderately important		5.3%	1
Extremely important		89.5%	17
answered question			19
skipped question			1



Islands Trust

Position Paper on the *Coastal Ferry Act*

Issues and Recommendations Regarding the First Performance Term (2003-2008) in Preparation for Negotiations for the Second Performance Term

Executive Summary

The Islands Trust Council is comprised of 26 elected representatives of the island communities that lie between the British Columbia mainland and southern Vancouver Island.

The Islands Trust Area community of 23,000 residents has developed in an historic partnership with BC Ferries. Eleven ferry routes provide direct access to fourteen island communities in the Trust Area. As the partnership has evolved, these islands have become critically dependent on BC Ferries for the reliable, affordable service provided over the past 45 years.

In April 2003, the provincial government's *Coastal Ferry Act* transformed BC Ferries into a private company, wholly owned by the government. The *Act* also created the BC Ferry Commission as a regulatory body. With three years' experience and approaching the second term of the service contract between the government and BC Ferries, it is timely to assess the impact of the changes. There are, in the view of Islands Trust, a number of aspects of the *Act* that warrant review and revision.

ROUTE SEGREGATION AND USER PAY – The *Act* segregated the ferry routes into a major group, those routes linking the lower mainland with Vancouver Island and requiring no subsidy, and the non-major routes, the remaining routes, which do require subsidy. The *Act* went on to determine that the non-major routes should become more 'user pay' in order to reduce the contribution by the government, without reference to impacts such a decision might have on the affected communities. To achieve this end, the *Act* set higher annual fare increases for the non-major routes than for the majors. Subsequent fuel surcharges further increased the fare disparity. Islands Trust believes this fare discrimination is inappropriate and harmful.

The Islands Trust Council recommends that there be common fare increases applied across the whole system, with some limited flexibility for averaging across routes. Surcharges should be similarly applied. Finally, government contributions should be CPI-indexed.

PROVINCIAL TRANSPORTATION NETWORK – The provincial transportation network includes ferries, highways and public transit. All are vital to the well being of the communities served and all require government funding to meet capital and operating needs. In contrast to the government's approach to funding highways and transit, the *Coastal Ferry Act* attempts to legislate reduced government contributions to ferries in the face of general inflation and a major need for vessel replacement capital. The Islands Trust believes this direction to be inappropriate, and if carried out as legislated, harmful to ferry dependent communities.

The Islands Trust Council recommends that the government view major capital expenditures for ferries in the same light as other major transportation projects and provide appropriate funding.

CROSS SUBSIDIZATION – The *Act* specifies that the major routes shall not subsidize the non-major routes beyond the first contract term (March 31, 2008). The major routes have not subsidized the non-major routes since the first year (2003/04). However the margin between cross subsidization and not is slim enough that it can be lost by a bad maintenance year for one or two ferries. In any event, the whole system operates now, as it has in the past, on the more productive routes subsidizing the routes needing more assistance. To illustrate, two of the three major routes subsidize the money-losing third route.

The Islands Trust Council recommends that the government treat BC Ferries as a single entity, with the objective of making the whole system more productive with sensitivity to the ability of working communities to bear increased fares.

SURCHARGES – The *Act* provides for surcharges to address extraordinary costs encountered by BC Ferries. BC Ferries applies for approval to apply fare surcharges. The Commission considers the application, granting interim approval for increases it deems appropriate. BC Ferries then approaches the government to see if they wish to absorb some of the extraordinary costs, thus reducing the fare surcharge. On the occasion of each of the three fuel surcharges, the government has declined to contribute, resulting in fare surcharge increases of 6%, 3% and 9.6% within 12 months on the non-major routes.

The Islands Trust Council recommends the government contribute to fare surcharges in proportion to the funding they provide to the affected routes.

THE BIG PICTURE – The Islands Trust area routes account for 4.8 million passenger trips annually. The remainder of the non-major routes account for another 5.9 million trips. All of the coastal communities are vitally dependent on BC Ferries. And all of them are economically stressed as a result of changing demographics. Sharply increasing ferry fares can be the final factor causing the people who are the heart of their communities to leave, diminishing all who remain behind. While much of the income in these coastal communities derives from tourism, rising fares are discouraging tourist traffic. If coastal tourism is choked off, provincial losses could far surpass any savings in government contributions to the ferry service.

The Islands Trust Council recommends the *Act* be amended to require full assessment of the impact of significant fare or service changes on coastal communities prior to their approval.

THE BC FERRY COMMISSION – The *Act* makes no provision for the Commission to seek comment on fare and service change applications. Further it makes no provision to direct the government, as the owner and partial funder of BC Ferries, to revise its contribution in the event of demonstrated harm to communities as a result of abrupt fare or service changes.

The Islands Trust Council recommends that the BC Ferry Commission, like other commissions charged with regulation of critical monopoly services, be required to seek comment from the affected communities on applications to set or to change fares or service levels. Further, Islands Trust recommends that the Commission be empowered to require the government to increase the service fee in the event fare or service changes are demonstrated to cause undue harm.

PUBLIC CONSULTATION – The *Act* was introduced with minimal public consultation. It's time now to see what's working and what needs adjustment. While there is no requirement in the *Act* for consultation by the government on the *Act*'s effectiveness, the Minister has indicated that he "recognizes the importance of an effective, affordable ferry service to the health and vibrancy of local communities" and has committed his Ministry to community discussions on service and fare levels prior to the close of the current contract (March 31, 2008).

The Islands Trust Council applauds the Minister's stance, and recommends the *Act* be amended to include regular consultation by the government with respect to its role in the provision of ferry service to coastal communities.

IN CONCLUSION – Residents and businesses in ferry-dependent communities contribute to public transportation through gas taxes, sales taxes, rural provincial property taxes, income taxes and regional district transit levies. They reasonably expect their government to support their transportation needs as it supports public transportation needs throughout the province.

The Islands Trust Council is asking for nothing more than equitable treatment for ferry-dependent coastal communities.



Islands Trust

Position Paper on the Coastal Ferry Act

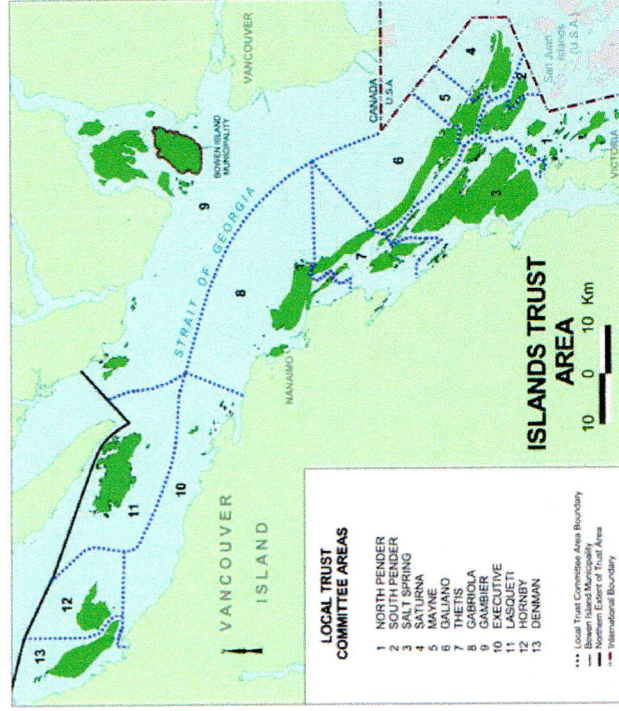
Issues and Recommendations Regarding the First Performance Term (2003-2008)
in Preparation for Negotiations for the Second Performance Term

INTRODUCTION

The Islands Trust and the Government of British Columbia share a strong mutual interest in the success of BC Ferries.

The Islands Trust Council is comprised of 26 elected representatives of the island communities that lie between the British Columbia mainland and southern Vancouver Island (see map). The Council has a provincial mandate to preserve and protect the environment and communities of the Gulf Islands for the 23,000 residents, the many thousands of non-resident property owners, hundreds of thousands of visitors and for all British Columbians.

Ten designated ferry routes and one unregulated route serve fourteen of these island communities. In turn, the eleven direct routes are indirectly linked to four main routes from the lower mainland (See Appendix 1). These 11 direct routes carry 2 million cars and 4.8 million passengers annually, providing BC with an essential transportation service for residents, property owners, businesses and tourists.



The Islands Trust Object

"to preserve and protect the trust area and its unique amenities and environment for the benefit of the residents of the trust area and of British Columbia generally, in cooperation with municipalities, regional districts, improvement districts, other persons and organizations and the government of British Columbia"

-- the Islands Trust Act

Providing access to the Gulf Islands, with their unique character and spectacular scenery, BC Ferries has been a partner in the development of strong and diverse local economies, including a substantial tourism industry. Tourism benefits not only the islands, but also the adjacent urban centres and the provincial economy as a whole. As a transportation link, BC Ferries is to the Gulf Islands what the Sea to Sky Highway is to Squamish and Whistler and what the new Island Highway is to Vancouver Island.

SOME HISTORICAL CONTEXT

For the past 45 years, BC Ferries has provided safe, reliable, affordable and cost-effective ferry service to coastal British Columbia. On April 1, 2003, the *Coastal Ferry Act* transformed the BC Ferries Crown corporation into BC Ferry Services Inc., a private company wholly-owned by the Province of BC. The *Act* also provided for the appointment of an independent regulator, the BC Ferry Commissioner, to assure that fares provided an appropriate rate of return and protected the broad provincial public interest.

One of the stated aims of the new *Act* was to remove a long-standing perception of government interference in setting ferry fares and service levels.

The new structure segregated ferry routes into "Major" and "Non-Major" routes. Major routes do not receive a provincial subsidy; Non-Major routes do.

ISSUES AND RECOMMENDATIONS

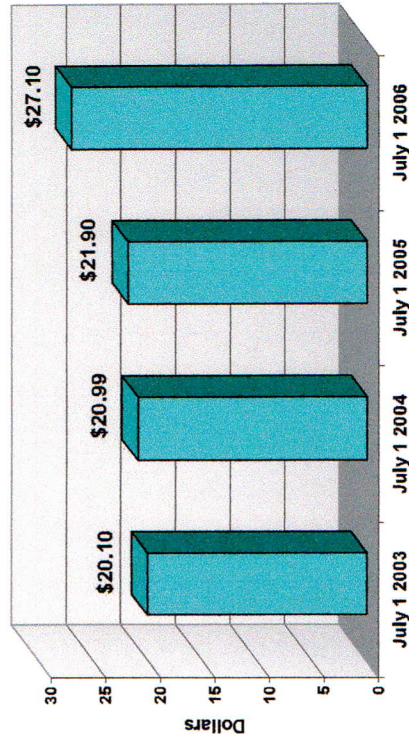
ISSUE 1: The Influence of Route Segregation on the 'User Pay' Principle

The new *Coastal Ferry Act* promotes a fundamental principle that the Non-Major routes, such as those that serve the Islands Trust Area, are to move towards a greater reliance on a 'user pay' system. Over time, ferry fares are to reduce the requirement for government contribution to ferry costs. The *Act* does not refer to potential impacts of this principle on ferry-dependent communities or on the broader provincial economy. It establishes annual fare increases for Non-Major routes at 4.4% and at 2.8% for Major routes.

If the same principle were applied to public transit in BC, transit riders would pay extra to use less productive routes. If applied to the provincial highway system, travelers would pay an extra fee to drive on less traveled roads. This does not happen, of course. As was previously the case with BC Ferries, costs and government funding in other provincial transportation networks are distributed over whole systems, normalizing user payments.

Adding to the effects of annual fare increases, BC Ferries added extraordinary fuel surcharges totaling 18.6% to ferry fares on Non-Major routes between July 2005 and June 2006. The chart to the right illustrates the resulting 23.7% fare increase over the last year, for a typical driver, car and passenger.

BC Ferry Fares – Pre-paid Tickets (Car, Driver & Passenger)
for a Typical Non-Major Route – 2003-2006
(Source: BC Ferries Fare Schedules)



RECOMMENDATIONS TO THE PROVINCE

- Provide one rate for annual fare increases, applied as an aggregate across the entire BC Ferries system. Provide some flexibility to vary price increases on specific routes, while maintaining the aggregate rate of increase across the system.
- Use the same approach for surcharges. This still provides the opportunity to increase the proportion of costs borne by users. It would allow the flexibility to adjust fares and seek efficiencies for various routes and markets, with due consideration of the impact of such adjustments on the communities served.
- Adjust provincial funding annually to correspond to the British Columbia or Vancouver Consumer Price Index, rather than leaving the fare-paying customer to absorb the full effects of inflation.

ISSUE 2: BC Ferries As An Essential Part of the Provincial Transportation Network

Highways, public transit and the ferry system are the three principal elements of provincial public transportation in our unique coastal province. While TransLink is now under the direction of the Greater Vancouver Regional District, it is supported through a provincially-granted taxing authority. The provincial government has converted BC Ferries, once a Crown corporation, into a private company. The provincial government owns it outright, and provides about 20% of its revenue.

Coastal ferry services, carrying 22 million passengers annually, are part of the Ministry of Transportation's "Core Business Areas" in its 2005/2006 Annual Service Plan Report. The ferry system is a vital pillar of the province's transportation infrastructure. It requires government support, not only in the interests of ferry-dependent communities, but also in the interests of all British Columbians. Contrary to some popular opinion, users of BC Ferries already contribute a greater percentage of costs than do users of other forms of public transportation in BC (see graph on right).

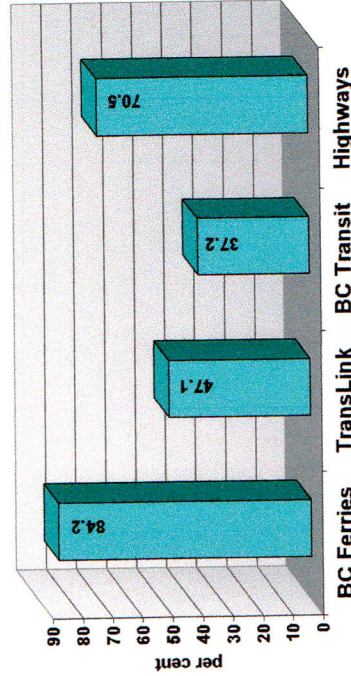
With 14 of its 34 vessels over 40 years of age, BC Ferries is going to need substantial capital infusions for replacement and possible additional ships over the next few years. The *Coastal Ferries Act* places the burden of vessel replacements solely on the fare-paying customer. We believe this is untenable.

RECOMMENDATIONS TO THE PROVINCE

- Participate to a substantial degree in funding BC Ferries vessel replacements, as well as fleet additions, terminal improvements and mid-life upgrades.
- View major capital expenditures at BC Ferries in the same light as the new William R. Bennett Bridge across Okanagan Lake and provide similar levels of extraordinary funding.
- Enshrine provincial participation in vessel replacement in the *Coastal Ferry Act*. Provincial funding should reflect the realistic needs of the system, in partnership with the fare-paying travelers.

Note: We are encouraged that the province has acknowledged the need to contribute to vessel replacement by boosting the Northern Routes 2007 service fee by \$14 million, facilitating purchase of replacement vessels for the Queen of the North and the Queen of Prince Rupert, as well as needed terminal upgrades.

Public Transportation in BC
Percentage of Full Cost Recovered From Users – 2005
and 2006
(See Appendix 2 for full calculations and sources)



ISSUE 3: Cross Subsidization

The *Coastal Ferry Act* states that, by the end of the first performance term, Major routes must not subsidize Non-Major routes.

Such subsidies occurred in Year 1 of the performance term. In Years 2 and 3, Non-Major routes showed net positive incomes. This picture could change dramatically if a few routes have disastrous maintenance experiences such as occurred on Route 5 (Swartz Bay-Southern Gulf Islands). There, operating expenses increased from \$14.4 million to \$19.2 million from 2004 to 2005. In fact, the whole system relies on cross-subsidization. Routes 1 (Tsawwassen-Swartz Bay) and 2 (Horseshoe Bay-Departure Bay) subsidize the money losing Route 30 (Tsawwassen-Duke Point). The Routes 1, 2, 30 and 3 (Horseshoe Bay-Langdale) receive revenue when they carry passengers connecting to Non-Major route destinations. Among the Non-Major routes, the more productive ones support those in need of greater assistance. It appears that the requirement of 'no cross-subsidization' is an artificial one.

RECOMMENDATIONS TO THE PROVINCE

- a. Treat the entire BC Ferries system as a single entity with the objective of making the whole system more efficient and productive.
 - b. Carefully consider the ability of working communities to bear the burden of increased fares and the deterrent effect of 'too high' fares on the tourism industry.
-

ISSUE 4: Surcharges

The *Coastal Ferry Act* permits BC Ferries to add surcharges to ferry fares in extraordinary situations, such as unprecedented fuel price increases or the addition of a new vessel in mid-term. BC Ferries must apply to the Ferry Commission for such a surcharge. The Commission must approve applications that are necessary to cover unexpected costs. Once it receives an approval, BC Ferries consults with the Ministry of Transportation to see if it wishes to absorb part of the projected fare increase.

Between June 2005 and June 2006, the BC Ferry Commission approved three surcharges related to extraordinary fuel costs. They represented increases of 6%, 3% and 9.6% for the Non-Major routes and 4%, 1.5% and 3.2% for the Major routes. The Islands Trust and various ferry advisory committees petitioned the Ministry to fund part of the increase, in proportion to its overall funding of ferry routes. In each case, the Ministry did not contribute. It left island residents, businesses and visitors to pay the full extent of the surcharge.

RECOMMENDATIONS TO THE PROVINCE

- a. Contribute to the costs of ferry fare surcharges in proportion to the existing funding ratio for ferry service.
 - b. Require the BC Ferry Commission to assess the impact of extraordinary fare increases on ferry-dependent communities.
 - c. Mitigate any unduly harmful impacts on the island or provincial economy by increasing provincial contributions to surcharges in an amount proportional to the government's share of the route funding.
-

ISSUE 5: The Big Picture

The *Coastal Ferry Act* does not consider the social or economic well-being of the ferry-dependent coastal communities.

Residents and businesses in ferry-dependent communities face substantial financial challenges to make ends meet. Many external economic pressures are forcing the working populations in these communities to leave. While high-profile media reports have focused on wealthy purchasers of island properties, island communities actually work because of a strong core of residents who operate essential services, many of them as volunteers. Ferry fare hikes that force these people to leave are exacting an ominous toll on island communities.

The Islands Trust Area accounts for 4.8 million ferry passengers annually. Last year, another 5.9 million passengers traveled on Non-Major routes outside the Trust Area. Communities outside the Trust Area are suffering similar impacts.

Changes to BC Ferries are threatening the health, even the survival, of coastal communities, just as British Columbia prepares to welcome the world to its coast in 2010 and to welcome growing numbers of international tourists in coming years. Coastal communities depend upon healthy and sustainable tourism as much as they depend on the affordable transport of goods and services.

If sharply rising ferry fares are allowed to choke off provincial tourism revenues and impose lasting damage on island communities, provincial losses will be far greater than any savings in service fees.

BC Ferries carried 297,000 **fewer** passengers in 2005/2006 than in the 2004/2005 fiscal year, even before the impacts of the latest fuel surcharges were felt. While there are many factors that may affect year-to-year traffic levels, fare pricing is a major one. We are unaware of any studies to date that have examined price elasticity, or the influence of fare increases on passenger travel and overall revenue.

RECOMMENDATIONS TO THE PROVINCE

- a. Amend the *Coastal Ferry Act* to require full and reasonable consideration of impacts on coastal communities and the provincial economy before approval of significant fare increases or service changes.
 - b. Amend the *Coastal Ferry Act* to require the consideration of price elasticity and an understanding of the relationship between fare prices and ridership, before fare changes are implemented.
-

ISSUE 6: The Role of the BC Ferry Commission

The BC Ferry Commission has six guiding principles, directly related to the *Coastal Ferry Act*. However, unlike most commissions that regulate monopoly services, it has no direction or authority to assess the impacts of decisions on the people served.

The Commission does not have a requirement to consult with communities about proposed fare increases or service changes. It has no authority to require or recommend to the provincial government that it reconsider its contribution if there are demonstrated negative consequences for communities from proposed changes. There is no mechanism for ferry-dependent communities to be heard about negative impacts.

RECOMMENDATIONS TO THE PROVINCE

- a. Expand the operating principles of the BC Ferry Commission to include the requirement that it consult meaningfully with affected communities and consider the impacts of fare or service changes. This would make the BC Ferry Commission similar to other commissions that regulate the affairs of critical monopoly services.
 - b. Authorize the Commission, upon discovery of negative effects related to a proposed fare adjustment, to require the province to increase its service fee sufficiently to mitigate the effects.
-

ISSUE 7: Public Consultation

The *Coastal Ferry Act* introduced a new concept in managing the ferry system with little prior public consultation or explanation. Nearing the second service term, it is essential that the province pause to assess those parts of the legislation that work, and those parts that are, or may be harmful to British Columbians. There is time to talk and listen to the public and particularly to those in ferry-dependent communities. We are encouraged that the Minister has indicated on at least two occasions that he "recognizes the importance of an effective, affordable ferry service to the health and vibrancy of local communities" and has committed the Ministry to discussions on service levels and other issues prior to the close of the current contract.

RECOMMENDATIONS TO THE PROVINCE

- a. Amend the *Coastal Ferry Act* to require meaningful consultation with affected communities prior to contract negotiation, or more frequently if there is clear evidence of undue harm to ferry-dependent communities.

THE COASTAL FERRY ACT – TIME FOR CHANGES

The Islands Trust supports many aspects of the *Coastal Ferry Act*. However, with negotiations underway for the second performance term, the Islands Trust believes it is not only timely, but critically important, to consider some refinements to the Act to address identified weaknesses that could not have been foreseen when the Act was originally crafted.

Residents and businesses in ferry dependent communities contribute to all forms of essential public transportation infrastructure through gas taxes, sales taxes, rural provincial property taxes, income taxes and regional district transit levies. They reasonably expect the provincial government to support their transportation needs as it supports public transportation needs throughout the province.

The Islands Trust Council is asking for fair and equitable treatment for island communities.

Message from Kim Benson, Chair – Islands Trust Council: We wish to make it clear to readers that this paper has been developed independently by the Islands Trust Council. Neither the BC Ferry Commission nor the management of BC Ferries has had any role in the creation of this report. As well, neither the Commission nor BC Ferries has been asked for nor expressed an opinion on this paper or its recommendations.

Appendix 1 – Ferry Routes within the Islands Trust Area
Source: Coastal Ferry Services Contract Between BC Ferries Corporation and the Province of British Columbia
 (April 2003)

Designated Ferry Routes	
ROUTE GROUPS	DESIGNATED FERRY ROUTES
MAJOR ROUTES	
1	Tsawwassen/Swartz Bay
2	Horseshoe Bay/Nanaimo
30	Tsawwassen/ Nanaimo
MINOR ROUTES	
4	Swartz Bay/Salt Spring
5	Swartz Bay/Southern Gulf Islands*
6	Crofton/Salt Spring
7	Saltery Bay/Earls Cove
8	Horseshoe Bay Bowen Island
9	Tsawwassen/Gulf Islands**
17	Comox/Powell River
18	Powell River/Texada
19	Nanaimo Harbour/Gabriola
20	Chemainus/Thetis/Kuper
21	Buckley Bay/Denman
22	Denman/Hornby
23	Campbell River/Quadra
24	Quadra/Cortes
25	Port McNeill/Alert Bay/Sointula
26	Skidegate/Aliford Bay
NORTHERN ROUTES	
10	Port Hardy/Prince Rupert
11	Prince Rupert/Skidegate
ROUTE 3	Horseshoe Bay/Langdale
ROUTE 12	Brentwood Bay/Mill Bay
ROUTE 13	Langdale/Gambier/Keats
ROUTE 40	Discovery Coast
Unregulated Routes	
•	Dodge Cove-Prince Rupert
•	Lasqueti-French Creek
•	Kyuquot-Tahsis-Gold River
•	Bamfield-Barkley Sound-PortAlberni
•	Ahousat-Hotsprings Cove-Tofino

NOTE: Ferry Routes that directly serve Islands Trust Area Islands are shown in *shaded italics*

***Route 5** directly serves North/South Pender, Mayne, Saturna, and Galiano Islands

** **Route 9** directly serves Galiano, Mayne, North/South Pender, and Salt Spring Islands

Appendix 2 Comparison of BC Transportation Infrastructure Financing

	BC Ferries		TransLink		BC Transit		Ministry of Transportation & Transportation Financing Authority	
	source for figures used: BCFS Annual Report 2005/2006, pg 62 March 31, 2006		source for figures used: TransLink Annual Report 2005, pg 32 December 31, 2005		source for figures used: 2006 BC Transit Annual Report, pg 43 March 31, 2006		source for figures used: Annual Service Plan Report 2005/06, pgs 39, 40 March 31, 2006	
Direct Revenues	Tariffs Retail Other	353.6 68.7 23.6	Transit Fares Transit Advertising & Other Aircare	285.6 26.7 26.7	Passenger Fares & Advertising Other Revenue	47.4 2.5	Highway Tolls & Permits - MoT Other - MoT Motor Fuel Tax Act (6.75¢/liter) - TFA Social Services Tax (1.50¢/car rental day) - TFA Other (property revenue, etc) - TFA	63.2 57.7 417.9 12.0 55.7
	Total Direct Revenues	445.9	Total Direct Revenues	319.2	Total Direct Revenues	49.9	Total Direct Revenues	606.5
Direct Operating Expenses	Operations Maintenance Cost of Goods Administration Interest on Debt	291.8 81.1 27.0 51.2 25.1	Bus & Seabus Skytrain Commuter Rail Alouin Ferry Aircare Services Major Road Network Maint. Transit Security & Police Other Projects Administration Interest on Debt	370.6 73.4 21.1 5.3 21.3 28.6 12.6 6.9 24.2 47.3	Operations & Maintenance Leases & Taxes Administration Interest on Debt	110.9 1.8 8.8 6.5	Ministry of Transportation Operations Highway Operations Transportation Improvements Administration MoT Total Transportation Financing Authority Operations Inland Ferries Heartland Roads Program Other Planning & Administration TFA Interest on Debt TFA Total	444.6 20.3 12.3 (477.2) 8.0 13.0 45.2 8.5 155.4 (221.5)
	Total Direct Expenses	(476.2) (30.3)	Total Direct Expenses	(611.4) (292.3)	Total Direct Expenses	(128.0) (78.1)	Total Direct Expenses	(698.7) (92.2)
Operating Net (Shortfall)								
Direct Cost Recovery Ratio		445.9/476.2 93.6%		319.2/611.4 52.2%		49.9/128.0 39.0%		606.5/698.7 86.8%
Capital Expenses	Amortization	(53.1)	Amortization	(66.4)	Amort. of Deferred Assets Amort. of Capital Assets Net Amortization	+4.3 (10.5) (6.2)	MoT Capital Expense TFA Net Amortization Net Capital Expenses	(15.4) (145.7) (161.1)
Total Expenses (direct + capital)		(529.3)		(677.7)		(134.2)		(859.7)
Full Cost Recovery Ratio		445.9/529.3 84.2%		319.2/677.7 47.1%		49.9/134.2 37.2%		606.5/859.7 70.5%
Subsidy Contributions	Federal Contract Provincial Ferry Service Fees	24.9 108.2	Motor Fuel Tax (12¢/liter) Property Tax Levy Other fees & Levies City of Vancouver Contribution Federal Gov. Contribution Provincial Gov. Contribution	254.6 216.8 28.3 1.1 108.9 117.1	Local Taxation Provincial Gov. Contribution	32.9 52.1	No subsidy contribution figures were easily identifiable within either the 2005/06 Ministry of Transportation Annual Service Plan Report or the 2005/06 Transportation Financing Authority Financial Statements, and so are not included in this comparison chart.	
	Total Subsidy Contributions	133.1	Total Subsidy Contributions	726.8	Total Subsidy Contributions	85.0		

The above table compares the "user pay" cost recovery ratios of the coastal ferry system provided by BC Ferries with those of British Columbian public transit and public road service providers: TransLink (Greater Vancouver Transit Authority), BC Transit, and the Ministry of Transportation (which includes the Transportation Financing Authority). It also compares the level of "subsidy contributions" received by each agency from Provincial, Federal, and Local government taxpayer funded sources, as indicated within the financial statements of each agency for the reported year.