

TRANSPORTATION AND INFRASTRUCTURE

PUBLIC INVESTMENT IN BC FERRIES' INFRASTRUCTURE (2016)

Preamble

The Chamber believes that a safe, efficient and dependable ferry service directly supports the B.C. economy.

To help minimize operating costs, BC Ferries has made recent steps toward a more market-based approach as well as rationalizing routes and adopting alternate fuels.

Despite this and recent increases in ridership, BC Ferries has increased its fares to fund its 12-year capital plan for assessing and reinvesting in critical assets.

Business Issue

BC Ferries is a key transportation link that directly affects the quality of life on Vancouver Island and contributes to the B.C. economy.

The Province has established minimum service levels and has sets price caps. This leaves BC Ferries' options to realize sustainable business operations to: increase fares (up to a point), seek additional funding resources, or secure additional revenue streams.

Despite its efforts to reduce operating costs and even with 2015 increases in ridership, BC Ferries has increased its fares, which can affect employment opportunities and property values, especially in coastal communities, as well as B.C.'s overall GDP and tax revenues.

Background

BC Ferries serves as a gateway to Vancouver Island, facilitating commerce both on and off the island, no differently than Canada's national highways.

Since 2003, BC Ferries Inc. has operated as a private corporation, with a governance and regulatory framework overseen by the BC Ferry Authority and the independent BC Ferry Commission. This arrangement is legislated by the Coastal Ferries Act (The Act), and BC Ferries is bound by the terms of Coastal Ferry Services Contact (CFSC) between BC Ferries and the Province that outlines service levels and standards amongst the different communities in which it operates.

Impact

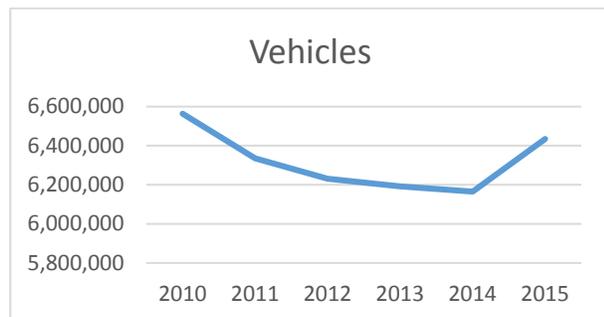
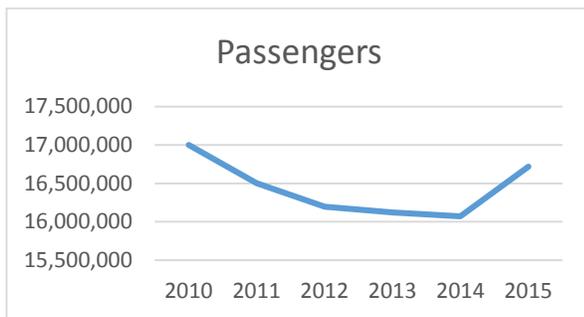
As stipulated in the CFSC, BC Ferries is an integral part of the B.C. coastal ferry system, linking Vancouver Island to the mainland and linking many other coastal communities. BC Ferries serves 51 municipalities and regional districts including all of Vancouver Island, the Gulf Islands, Texada Island, Powell River, the Sunshine Coast, many island communities within the Mount Waddington Region, as well as communities on the central coast, Prince Rupert, and Haida Gwaii.

The 2014 report, *Policy Paper on Socioeconomic Impacts of Ferry Fare Increases*, by the Union of B.C. Municipalities found that BC Ferries stimulates a total of \$1.8 billion in expenditures each year, which in turn produces \$1.5 billion in total value-added provincial GDP, and millions to Federal, Provincial and local governments' tax revenues.

BC Ferries has seen steadily increasing fares as well as an overall decrease in ridership since 2010.

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	April 2010	April 2011	April 2012	April 2013	April 2014	April 2015	April 2016	Change
Passenger (12 years or older)	\$13.50	\$14.25	\$14.85	\$15.50	\$16.25	\$16.90	\$17.20	27.4%
Passenger (5-11 years)	\$6.75	\$7.25	\$7.45	\$7.75	\$8.15	\$8.45	\$8.60	27.4%
Standard vehicle (up to 20 feet)	\$45.00	\$47.25	\$49.25	\$51.25	\$53.25	\$55.40	\$56.45	25.4%
Standard vehicle (extra per foot)	\$2.25	\$5.35	\$5.60	\$5.85	\$6.10	\$6.35	\$6.50	188.9%
Motorcycle	\$22.50	\$23.75	\$24.65	\$25.65	\$26.65	\$27.70	\$28.25	25.6%
Bus (per foot)	\$3.65	\$3.85	\$4.00	\$4.20	\$4.35	\$4.55	\$4.65	27.4%
Commercial (per foot)	\$5.05	\$5.35	\$5.60	\$5.85	\$6.10	\$6.35	\$6.50	28.7%



Revenues

Ferry service is divided into three distinct components:

- Major routes – Delta, West Vancouver, Nanaimo, Sidney and Langdale;
- Minor Routes - Gulf islands, Sunshine Coast, Powell River, Mill Bay; and
- Northern routes –Port Hardy, Prince Rupert and Haida Gwaii.

For the most part, the major routes are profitable and recoup enough revenue to cover the cost of operations. The minor and Northern routes contribute significantly to their operations, but are not able to fully cover their operating costs. For example, in FY 2015, the four major routes - Swartz Bay-Tsawwassen, Horseshoe Bay-Departure Bay, Langdale-Horseshoe Bay and Duke Point-Tsawwassen - had \$509,445,000 in revenues and \$352,106,000 in expenses, and a net-earnings of \$157,339,000. In the same year, the minor and northern routes - 20 in total - had \$108,348,000 in revenues, and \$183,502,000 in expenses, with a net loss from operations of \$75,154,000.¹

Every four years, the BC Ferries Commissioner sets price caps that essentially set a maximum average price BC

¹ Route Financial Reports, 2014-2015 Annual Report to the BC Ferry Commissioner

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Ferries can charge passengers. In September 2015, the Commissioner released its final decision on price caps for Performance Term 4 (PT4), capping increases to fares at an average of 1.9 percent per year across all routes from April 1, 2016 through March 31, 2020.

BC Ferries' options to realize additional revenues are to:

- increase fares (up to a point),
- seek additional funding resources, and
- secure other revenue streams, such as the reservation fees.

Of note, reservations fees generated \$13.1 million in FY 2015. Fiscal 2016 is expected to yield a modest increase in other revenue over fiscal 2015, reflecting consistent growth in these areas. Catering and retail revenues are anticipated to make up the largest component of other revenues.

Public Funding

Each year, BC Ferries receives significant provincial and federal support. In FY 2015, BC Ferries received \$178.4 million from the federal and provincial governments, through a federal grant and provincial "service fees":

- BC Ferries receives a federal grant fulfill the Government of Canada's obligation of providing ferry services to coastal British Columbia. The grant is based on the Vancouver Consumer Price Index (CPI). In FY 2015, BC Ferries received a 28.4 million grant; and
- BC Ferries receives "service fees" from the Province for the provision of services, which are based on activity levels. For FY 2015, fees transferred to BC Ferries amounted to \$150 million. The provincial services fees consist of three parts:
 1. Ferry Transportation Fees. These fees are designed to make 22 routes (which would otherwise be loss-making) financially viable without cross subsidization from the three major routes, which receive no ferry transportation fee. The fees are payable on a monthly basis based on estimated trips and are reconciled quarterly;
 2. Social Program Reimbursement. This payment provides a reimbursement to BC Ferries for toll discounts established by the Province and given to students, seniors, the disabled and through the medical travel assistance program. The payment is variable based on volume and amount of discounts provided; and
 3. Unregulated Route Fee. This fee provides funding for unregulated routes through a \$1.7 million per year flow-through for private operators.

Capital Investment Funding

BC Ferries has a rolling 12-year capital plan for assessing and reinvesting in critical assets, including the replacement of BC Ferries 57-year old North Island Princess and the first of BC Ferries 50-year old Bowen class vessel replacements. It has received significant amount of federal funding in the past. For example, in 2010 the Government of Canada waived over \$119 million in duties waived for new vessels from Germany. In the Province's most recent attempts to secure funding through the federal New Building Fund found that BC Ferries' terminals and ships were not eligible.

BC Ferries is as much a part of the transportation structure of B.C. as the roads and bridges throughout the

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province. These roads and bridges are eligible for funding under a variety of federal infrastructure programs. BC Ferries' infrastructure, including ships and terminal facilities, should be eligible to receive federal infrastructure fund as does other critical transportation infrastructure.

Summary

BC Ferries has had difficulty accessing Government of Canada public capital infrastructure programs can affect fare affordability. Public investment in BC Ferries capital program would reduce cost pressures as BC Ferries renews its fleet and develops terminals and faces other capital costs. Given the Government of Canada's obligation to providing ferry services to coastal British Columbia, it only makes sense that BC Ferries capital infrastructure requirements should be eligible for federal investment.

THE CHAMBER RECOMMENDS

That the Federal and Provincial Governments ensure ferry infrastructure, including terminals and fleets, an eligible category for federal funding.