

CABINET AGENDA

Wednesday, October 20, 1999

9:30 a.m. to 11:30 a.m.

Crown Isle Golf and Country Estates, Courtenay

Lunch will be served.

CONFIDENTIAL

No.	ITEM	MINISTERS/OFFICIAL RESPONSIBLE	TAB
A.	<u>CABINET MINUTES:</u>		
1.	Minutes of Previous Meeting: - October 7, 1999		1. *
B.	<u>NEW BUSINESS:</u>		
2.	For Information: Auditor's Report on Fast Ferries	Gordon Wilson	2. VER
3.	For Information: Strategic Discussion for First Nations Issues	Dale Lovick	3. *
4.	For Decision: Access to Resources	Jan Pullinger	4. *
5.	For Information: Child Care Discussion	Moe Sihota	5. VER
C.	<u>COMMITTEE BUSINESS:</u>		
6.	Treasury Board Minutes: October 19, 1999	Paul Ramsey	6. TBD
7.	Orders in Council: October 20, 1999	Ujjal Dosanjh	7. *

D. OTHER BUSINESS (Status Reports):

- | | | | |
|----|---|----------------|--------|
| 8. | Intergovernmental Relations Status Report | Andrew Petter | 8. * |
| 9. | State of the Province | Premier Miller | 9. VER |

* Material enclosed
TBD To be distributed at meeting
VER Verbal presentation

TAB TWO

FOR INFORMATION:

AUDITOR'S REPORT ON FAST FERRIES

A verbal report will be provided.

CABINET MINUTES

October 20, 1999
Courtenay, BC

Members Present:	Honourable Dan Miller	(PREM/EM)
	Honourable Lois Boone	(CF)
	Honourable Ujjal Dosanjh	(AG)
	Honourable Jim Doyle	(MA)
	Honourable Corky Evans	(MAF)
	Honourable Michael Farnworth	(EI)
	Honourable Helmut Giesbrecht	(PS)
	Honourable Jenny Kwan	(WE)
	Honourable Harry Lali	(TH)
	Honourable Dale Lovick	(AA)
	Honourable Joan Smallwood	(LAB)
	Honourable Andrew Petter	(AETI)
	Honourable Jan Pullinger	(CDCV)
	Honourable Paul Ramsey	(FCR)
	Honourable Joan Sawicki	(ELP)
	Honourable Moe Sihota	(SDS)
	Honourable Dennis Streifel	(BCF)
	Honourable Ian Waddell	(SBTC)
	Honourable David Zirnheft	(FOR)
Members Absent:	Honourable Penny Priddy	(HEA)
	Honourable Gordon Wilson	(EDU)

A. CABINET MINUTES:

1. Minutes of Previous Meeting: October 7, 1999

Cabinet approved the minutes, with one amendment.

Cabinet directed that one amendment be made to **Item 2: Strategy for Salmon Aquaculture.**

The following sentence is to be added to the beginning of the third paragraph:

Tenures using existing technology are currently capped at 121.
Up to 10 new technology pilot projects will be developed. The Ministry of Community Development, Co-operatives and Volunteers should be included in the planning, implementation and communication of these pilot projects, as part of the community tenure initiative for economic diversification.

B. NEW BUSINESS:**2. For Information: Auditor's Report on Fast Ferries**

Cabinet received a presentation "Auditor General's Review of the Fast Ferry Project", which reviewed the key issues and the plan for response when the Report is released on October 27, 1999.

3. For Information: Strategic Discussion for First Nations Issues

Cabinet received a presentation "First Nations Strategic Review". Cabinet gave the following direction:

- maintain course on the current model of treaty negotiations;
- accelerate the existing treaty process where possible;
- implement the Treaty Related Measures Initiative as approved by Cabinet;
- develop with the Ministry of Forests a First Nations forestry strategy;
- mobilize/coordinate with other government resources that might assist in delivering some economic development benefits; and
- do not raise expectations with First Nations that government has a lot more cash to bring to the process, or that mandates such as province-wide revenue sharing and co-management will be forthcoming.

Cabinet directed that more work be done on a comprehensive strategy to transform or accelerate the treaty process, including a strategy with the First Nations who are not currently in negotiations.

4. For Decision: Access to Resources

Cabinet reviewed a submission "Access to Resources Initiative", dated October 19, 1999. Cabinet approved Option 2: a limited implementation of the Access to Resources projects using funds from existing Ministry of Community Development, Cooperatives and Volunteers bases.

5. For Information: Child Care Discussion

A draft paper "Building a Better Future for British Columbia's Kids", was presented as a Ministry paper designed to facilitate public discussion on childcare and to position British Columbia in future discussions with the Federal government.

The Minister responsible was asked to meet with the Minister of Intergovernmental Relations and the Minister of Children and Families to ensure that the document and the presentation to the Social Services Ministers meeting does not undermine the province's position in the Social Union Framework Agreement on restoration of the CHST payments.

C. COMMITTEE BUSINESS:**6. Treasury Board Minutes:**

- October 19, 1999

Cabinet approved the Treasury Board decisions on the following:

Item 5: Treaty Related Measures Fund;

Item 6: Clayoquot Sound Interim Measures Extension Agreement;

Item 9: Lytton Health and Healing Centre; and

Item: Vancouver/Richmond Health Board Building Purchase.

Cabinet approved the Treasury Board decision in **Item 3:** Oil and Gas Initiative 2 subject to a complete briefing of the Minister of Environment, Lands and Parks and final sign off by the next meeting of Cabinet.

Cabinet approved the Treasury Board decision in **Item 8:** Western Economic Partnership Agreement subject to a clarification that Crown Corporations can participate, and to a process where a list of existing government projects and programs, that have been signed off by each Minister responsible, is to be approved by the Secretary to Treasury Board, prior to announcement by the Minister of Employment and Investment.

Cabinet began a review of the Treasury Board decisions in **Item 1:** Review of 1999/00 and 2000/01 Fiscal Position, and did not complete the review. Cabinet asked to see a complete list of potential expenditure pressures. Cabinet expressed concern that many of the potential program reductions or deferrals involved small social programs, and requested a list of proposals for capital projects that could realize savings through reductions or deferrals.

7. Orders in Council Minutes: October 20, 1999

Cabinet reviewed a list of proposed Orders in Council and a list of Corridor Orders .

Cabinet approved the attached list of Orders in Council with the following amendments:

- an OIC appointing Tim Stevenson, MLA as Parliamentary Secretary to the Minister of Health was approved;
- an OIC making a number of appointments and reappointments to the Environmental Appeal Board was deferred for further due diligence, subject to necessary approval in the case of appointments that may be time sensitive; and
- an OIC appointing the Chair of the Environmental Appeal Board and the Forest Appeals Commission was deferred.

[The Honourable Ujjal Dosanjh, Attorney General, withdrew without participating in the discussion of the appointment of members to the Liquor Appeal Board and the Commercial Appeals Commission.]

D. OTHER BUSINESS (Status Reports):

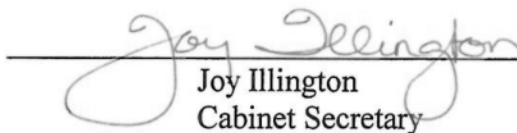
8. Intergovernmental Relations Status Report

The Intergovernmental Relations Status Report was received.

9. State of the Province (PREM)

- Cabinet received a briefing on the CUPE negotiations and possible options.
- Cabinet approved a mandate for the Transition Committee to prepare plans for an orderly and appropriate transition for a new Premier in late February.
- Cabinet did not approve a recommendation of the Smith Commission that publicly funded counsel be provided for witnesses.

[Neither Honourable Dale Lovick, Minister of Aboriginal Affairs, nor Honourable Ujjal Dosanjh, Attorney General were present for the discussion of the Smith Commission.]


Joy Illington
Cabinet Secretary

To: Honourable Gordon Wilson
Minister responsible for BC Ferries

Date: October 26, 1999

CONFIDENTIAL

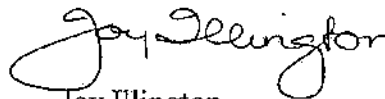
Re: Cabinet Meeting of October 20, 1999

Following is an excerpt from the minutes of the Cabinet meeting of October 20, 1999 for your attention:

B. NEW BUSINESS:

2. For Information: Auditor's Report on Fast Ferries

Cabinet received a presentation "Auditor General's Review of the Fast Ferry Project", which reviewed the key issues and the plan for response when the Report is released on October 27, 1999.



Joy Illington
Cabinet Secretary

cc: Tony Penikett

CABINET AGENDA

Wednesday, February 16, 2000

9:30 a.m. to 1:00 p.m.

Cabinet Chambers

Lunch will be served.

CONFIDENTIAL

No.	ITEM	MINISTERS/OFFICIAL RESPONSIBLE	TAB
A.	<u>CABINET MINUTES:</u>		
1.	Minutes of Previous Meeting: - January 26, 2000		1. *
B.	<u>NEW BUSINESS:</u>		
2.	For Decision: Motor Carrier Commission Revitalization Strategy	Harry Lali	2. *
3.	s.14	Penny Priddy	3. *
4.	For Decision: Forest Transition Workers	Paul Ramsey/ David Zirnheld	4. TBD
5.	For Information: Update on First Nations Negotiations	Dale Lovick	5. *
6.	Planning Board Minutes: February 15, 2000 - Green Economy Policy Framework - Climate Change - Strategic Issues for BC - Tax on Income	Premier Miller	6. TBD - * - * - *
C.	<u>COMMITTEE BUSINESS:</u>		
7.	Treasury Board Minutes: - January 26, 2000 - February 15, 2000	Paul Ramsey	7. - * - TBD

C. COMMITTEE BUSINESS: ctd.

- | | | | |
|-----|---|---------------|----------------------|
| 8. | Cabinet Committee on Crown Corporations Minutes:
- January 25, 2000
- February 10, 2000 | Andrew Petter | 8.

- *
- * |
| 9. | Cabinet Committee on Collective Bargaining Minutes: February 1, 2000 | Paul Ramsey | 9. * |
| 10. | Green Economy Working Group Minutes: February 10, 2000 | Joan Sawicki | 10. * |
| 11. | Cabinet Committee on Regulations and Orders in Council: February 16, 2000 | Jim Doyle | 11. TBD |

D. OTHER BUSINESS (Status Reports):

- | | | | |
|-----|---|----------------|---------|
| 12. | Intergovernmental Relations Status Report | Andrew Petter | 12. * |
| 13. | State of the Province | Premier Miller | 13. VER |

* Material enclosed
TBD To be distributed at meeting
VER Verbal presentation

MINUTES

COMMITTEE NAME: Cabinet Committee on Crown Corporations

MEETING DATE: February 10, 2000

ATTENDANCE: Hon. Andrew Petter (Chair) (AETT)
Hon. Helmut Giesbrecht (PS)
Hon. Jenny Kwan (WEQ)
Hon. Gordon Wilson (EDU)

ABSENT: Hon. Dale Lovick (AA)
Hon. Michael Farnworth (EI)

OFFICIALS:

Tony Penikett	(CCS)	Thom Thompson	(ICBC)
Les MacLaren	(CCS)	Rob Clark	(BCFC)
Nancy Carter	(CCS)	Pat Morris	(BCFC)
Vaughan Krueger	(CCS)	Broc Robertson	(CCS)
Boyd Pyper	(AA)	Bob Lingwood	(BCFC)
Bob Williams	(ICBC)	Brenda Turnel	(CCS)
Greg Basham	(ICBC)	Bob Adams (CCS)	
Cindy Brown	(ICBC)	Tom Greene	(CO)

1. BC Ferries - Catamaran Ferries International (CFI) Divestiture Options

BC Ferries Corporation representatives presented an overview of CFI's position in the international fast ferry market. It was noted that Australian, Spanish and Italian shipbuilders represent the primary competition in the international market, all of which are supported by direct subsidy programs for shipbuilders which are not available in BC/Canada. As a Crown entity, CFI is unable to access federal government programs in areas such as technological innovation and export development. In addition, CFI's wage rates are 15-25% above the world average.

CFI has been approached by an American corporation to prepare a proposal for the construction of two 72-metre car-carrying fast ferries to operate on the Great Lakes between Toronto and Jamestown, New York. The vessels contemplated in the Letter of Intent, estimated to have a market price of approximately US\$27 million/vessel (C\$39 million) are about one-third smaller than the PacifiCat vessels and are not from the PacifiCat design. In the context of this opportunity, the Committee reviewed three CFI divestiture options presented by the BC Ferries Corporation (BCFC), which can be summarized as follows:

1. BCFC to engage in negotiations directed towards structuring a construction contract for two car-carrying aluminum vessels that will facilitate the transfer of the construction contract and ownership of CFI to the private sector (brokered deal).
2. BCFC to engage in negotiations directed toward structuring a construction contract for the two ferries that will facilitate the establishment of a stand-alone shipyard and the progressive privatization of that shipyard during the course of the construction contract (stand-alone shipyard).
3. BCFC to initiate processes for the disposal of the assets of CFI, with the purpose of winding up the company (CFI wind-up).

The Committee also reviewed a fourth option, presented by the Crown Corporations Secretariat, which proposes that CFI would be restructured as a free-standing entity with a mandate to develop the provincial interest in catamaran ferries. The new company, owned by the province, would repurchase the PacifiCats from BCFC and make them available to BCFC under an operating lease.

In discussion, it was noted that any option that involves CFI building new vessels will require further government subsidies. However, it is not known how many vessels would need to be built prior to reaching a threshold where no further subsidies would be required. The Committee discussed the benefits of facilitating the transfer of the construction contract and ownership of CFI to a consortium of five or six shipbuilders. Among other potential benefits, this approach would hopefully minimize the potential for supplemental subsidy requests during the construction of the vessels. The BCFC Board believes that Option 1, which involves finding a new owner as soon as possible, offers the greatest potential for success.

The Committee recommended approval-in-principle of Option 1, on the understanding that all efforts will be made to attract a consortium representing a broad range of companies as a prospective new owner, as opposed to a single shipyard. The proposed deal should also address the priority of equity hiring. As part of the developmental work-related next steps, the size of the required government subsidy must be finalized as soon as possible in support of BCFC preparing a request to Treasury Board for the required funding.

2. BC Ferries: Strategic Overview

PriceWaterhouse Coopers has conducted a strategic overview of BCFC services. Due to the study's tight timelines, the primary emphasis was on governance, rather than on service delivery options. The study serves as a preliminary review of high-level, strategic issues and options, identifying areas that require further analysis as part of a more comprehensive planning exercise. The strategic overview considered eight governance options, and recommended "...a Crown corporation with mandatory consultation required on changes to tariff and route configuration and a financial framework set out in statute."

Stemming from the study, the Committee reviewed three governance options presented by BCFC, summarized as follows:

1. (BCFC's recommended option) Amend the *Ferry Corporation Act* to:
 - Remove all current requirements for Lieutenant Governor in Council (LGIC) approval
 - Empower the Board of Directors to set fees and service levels, subject to mandatory stakeholder consultation and Cabinet veto (as opposed to modification)
 - Define in statute a financial framework, and the financial accountability of the Board to the shareholder
 - Authorize BCFC to operate a program or service delivery to remote communities, subject to feasibility studies
 - Authorize BCFC to expropriate land for future terminal development
2. Amend the *Ferry Corporation Act* to give the LGIC the power to veto, but not modify, the Corporation's recommendation on tariff.
3. Do not change the legislation, but broaden the Board's discretionary authority within limits set by Order-in-Council.

The Committee acknowledged the difficult policy choices that need to be addressed. While there may be benefits in BCFC obtaining more decision-making autonomy, the general public will continue to believe that government is responsible for the Corporation and the major decisions associated with its service delivery. An associated challenge is that there is no clear public expectation regarding the issue of tariffs because individuals will continue to convey expectations which are based on their personal situations (eg. those who use only those ferry system routes which are profitable can be expected to oppose cross-subsidization).

The Committee recommended that BCFC work with CCS in the development of a Request for Legislation which will result in a larger range of decision-making authority for the BCFC Board, but which maintains the requirement for Cabinet to approve decisions regarding major policy issues including tariffs, service levels and expropriation. This work shall parallel ongoing work regarding the restructuring of corporate finances and operations.

3. ICBC: Surrey Centre Update

The Committee received an update on the status of the Surrey Centre proposal. The Board of Directors of ICBC Properties Ltd. is now comprised of five "unrelated" and four "related" members. The project design was finalized at the Board's January 31/00 meeting. The company has concluded an agreement with the City of Surrey and it is hoped that negotiations with the university will be completed in the immediate future.

The Committee recommended that one additional "unrelated" member be added to the Board of ICBC Properties Ltd., and that the company provide CCS with the details of its agreement with the City of Surrey.

4. ICBC Competitive Strategies

ICBC presented its Strategic Overview to the Committee at its December 8/99 meeting. As part of that presentation, the Corporation highlighted its concerns regarding the impact of increased competition in the optional coverage market. The Committee asked ICBC to develop options to address the competitive rate issue.

In response to that request, the Committee reviewed a submission which detailed a series of options which are not mutually exclusive. The Corporation recommended an approach which includes improving the linkage of the Claims Rated Scale (CRS) to driving history. The recommended option specifically proposes:

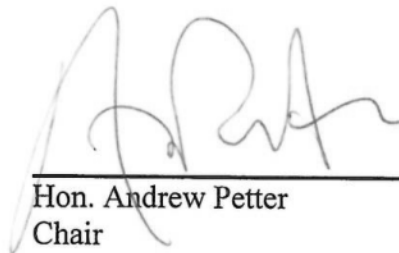
- a) maintaining rate stability for a 5th year; and
- b) improving the insurance premium discount and surcharge system (CRS) and minimizing the use of the Crash Responsibility Charge (CRC); highlights include the following:
 - base rates remain unchanged
 - new and experienced drivers would receive discounts at a slower rate than at present (ie. 5% for each year of safe driving instead of 10%)
 - long-term safe drivers would receive additional discounts on basic coverage and would not be penalized as severely for their first at-fault crash, in recognition of their long-term safe driving record
 - drivers with multiple crashes would receive a more severe penalty for at-fault crashes because penalties would vary depending on the number of years that a customer has driven crash-free.

ICBC believes that these improvements to the CRS would result in a more balanced system that reflects a customer's driving experience and crash record. With the new CRS system in place, the use of the CRC would be minimized (the CRC penalizes all drivers at fault for crashes by providing ICBC with the right to recover up to \$250 from an insured liable for damage to a third party; it doesn't differentiate between customers based on their individual driving record and has resulted in significant negative public reaction).

In discussion, it was noted that this recommended approach is not cost neutral as it will save ICBC 1% in income. The committee also noted that transition issues would need to be addressed to ensure that policy holders benefit from the changes based on the last three years of their driving history.

ICBC also gave a verbal report on rates and the possibility of a "road safety dividend". ICBC is contemplating no rate increase for this year and possibly a road safety dividend to good drivers similar to last year's \$47 million dividend. A final decision on a dividend needs to be approved by the ICBC Board after claims results from December and January are in.

The Committee agreed-in-principle to the proposal for no rate increases for the next year. ICBC was directed to seek Treasury Board approval on the road safety dividend as this may impact consolidated accounts. The Committee also recommended approval-in-principle to the proposed approach to address the competitive issues through adjustments to the claims rated scale. The Committee recommended that ICBC develop the proposal in greater detail, on the understanding that the approach will, financially, be no worse than cost neutral. The Committee requested ICBC to report back to the Committee once it had completed a more detailed proposal and a comprehensive communications strategy.



Hon. Andrew Petter
Chair

CABINET MINUTES

February 16, 2000

Members Present:	Honourable Dan Miller	(PREM/EM)
	Honourable Lois Boone	(CF)
	Honourable Jim Doyle	(MA)
	Honourable Corky Evans	(MAF)
	Honourable Michael Farnworth	(EI)
	Honourable Helmut Giesbrecht	(PS)
	Honourable Jenny Kwan	(WE)
	Honourable Harry Lali	(TH)
	Honourable Dale Lovick	(AA)
	Honourable Joan Smallwood	(LAB)
	Honourable Andrew Petter	(AETT)
	Honourable Penny Priddy	(HEA)
	Honourable Jan Pullinger	(CDCV)
	Honourable Paul Ramsey	(FCR)
	Honourable Joan Sawicki	(ELP)
	Honourable Moe Sihota	(SDS)
	Honourable Dennis Streifel	(BCF)
	Honourable Ian Waddell	(SBTC)
	Honourable David Zirnheld	(FOR)
Members Absent:	Honourable Ujjal Dosanjh	(AG)
	Honourable Gordon Wilson	(EDU)

A. CABINET MINUTES:

1. Minutes of Previous Meeting: January 26, 2000

Approved.

B. NEW BUSINESS:

2. For Decision: Motor Carrier Commission Revitalization Strategy (TH)

Cabinet reviewed a document "Motor Carrier Commission Revitalization Strategy," dated January 26, 2000.

Cabinet approved Option 1: that the Motor Carrier Commission proceed with implementation of the revitalization strategy.

3. s.14

4. For Decision: Forest Transition Workers (FCR/FOR)

Cabinet reviewed a document "Taxation of FRBC's Forest Worker Transition Program Payments", dated February 15, 2000.

Cabinet delegated the decision of whether and how to pay personal income tax liabilities of recipients of FRBC Forest Worker Transition Program payments to a Committee composed of the Premier, the Minister of Forests, the Minister of Advanced Education, Training and Technology and the Minister of Finance and Corporate Relations.

5. For Information: Update on First Nations Negotiations (AA)

This item was not dealt with.

6. Planning Board Minutes: February 15, 2000

- Green Economy Policy Framework

Cabinet approved the Planning Board recommendations, and agreed with the request that further work be done on models for delivery of direct forms of assistance through contributions, for demonstrations of early stage green technology.

- Climate Change - Strategic Issues for BC

Cabinet approved the Planning Board recommendations. Cabinet emphasized that Canada must adopt a National Implementation Strategy that does not isolate provinces individually.

- Tax on Income

Cabinet approved the Planning Board recommendations. A communications strategy should be prepared that will emphasize that every penny of federal tax reduction will be passed on to British Columbians.

C. COMMITTEE BUSINESS:**7. Treasury Board Minutes:**

- January 26, 2000

Cabinet approved the following decisions of the January 26, 2000 meeting of Treasury Board:

Item 1: Legislative Changes, Financial Accountability and Governance of BC Ferry Corporation;

Item 2: Rapid Transit Project 2000 SkyTrain Cost Sharing Agreement;

Item 3: Union compensation Increases - Community Social Services Sector; and

Item 4: Non-Union Wage Increase - Community Social Services Sector.

- February 15, 2000

Cabinet approved the following decisions of the February 15, 2000 meeting of Treasury Board:

Item 1: 2000/01 consolidated Revenue Fund Financing Transactions;

Item 3: BC Transportation Financing Authority 2000/01 Business Plan;

Item 4: Liquor Distribution Branch Cash Registers and Related Computer Systems/Business Plan;

Item 5: Redesign the BC Student Assistance Program to be consistent with the Canada Student Assistance Program and Decline a Federal invitation to formally harmonize the two programs; and

Item 7: Non-Union Wage Increase - Community Social Services Sector.

Item 2: Indian Arm Provincial Park. Cabinet approved-in-principle the land to be purchased, with the cost details to be approved by Treasury Board.

The Minister of Finance and Corporate Relations reviewed the details of the Third Quarterly Report.

8. Cabinet Committee on Crown Corporations Minutes:

- January 25, 2000

Cabinet approved the Minutes of the Cabinet Committee on Crown Corporations Meeting of January 25, 2000.

- February 10, 2000

Cabinet approved the Minutes of the Cabinet Committee on Crown Corporations Meeting of February 10, 2000.

Cabinet approved the following recommendations of the Committee:

Item 1: BC Ferries - Catamaran Ferries International Divestiture Options;

Item 2: BC Ferries: Strategic Overview;

Item 3: ICBC: Surrey Centre Update; and

Item 4: ICBC Competitive Strategies.

9. Cabinet Committee on Collective Bargaining Minutes: February 1, 2000

Cabinet approved the Minutes of the Cabinet Committee on Collective Bargaining of February 1, 2000 and of the Delegated Committee of Cabinet of February 4, 2000.

10. Green Economy Working Group Minutes: February 10, 2000

Cabinet approved the Minutes of the Green Economy Working Group as per the recommendations of Planning Board's meeting of February 15, 2000 on **Item 2:** Climate Change and **Item 3:** Green Economy Policy Framework.

Cabinet directed that **Item 4:** Eco Trust Canada Proposal must go to Treasury Board prior to any consideration by Cabinet.

11. Cabinet Committee on Regulations and Orders in Council Minutes:
- February 16, 2000

Cabinet reviewed a list of proposed Orders in Council (and a list of Corridor Orders) vetted by the Cabinet Committee on Regulations and Orders in Council.

Cabinet approved the attached list of Orders in Council with the following amendments:

- a requested change of wording for accuracy to the CCRO Minutes for the Order in Council for Supplementary Letters Patent for the District of 100 Mile House; and
- the Order in Council that amends BC Parks fee structure and revises the definitions and regulations around the size of camping parties.

[The Honourable Paul Ramsey, Minister of Finance and Corporate Relations, and Honourable Dale Lovick, Minister of Aboriginal Affairs, declared a conflict and withdrew without participating in the consideration of Orders in Council that related to the College Pension Plan.]


D. OTHER BUSINESS (Status Reports):**12. Intergovernmental Relations Status Report**

The Intergovernmental Relations Status Report was received.

13. State of the Province (PREM)

Convention preparation was discussed.

Premier Miller thanked his colleagues - particularly the Minister of Finance and Corporate Relations for his continuous hard work and the Minister of Advanced Education, Training and Technology in his role as Chair of the Transition Committee. The Premier was given a round of applause and a gift by his colleagues.


Joy Illington
Cabinet Secretary

To: Honourable Andrew Petter
Chair
Cabinet Committee on
Crown Corporations

Date: February 21, 2000

CONFIDENTIAL

Re: Cabinet Meeting of February 16, 2000

Following is an excerpt from the minutes of the Cabinet meeting of February 16, 2000 for your attention:

C. COMMITTEE BUSINESS:

8. Cabinet Committee on Crown Corporations Minutes:

- January 25, 2000

Cabinet approved the Minutes of the Cabinet Committee on Crown Corporations Meeting of January 25, 2000.

- February 10, 2000

Cabinet approved the Minutes of the Cabinet Committee on Crown Corporations Meeting of February 10, 2000.

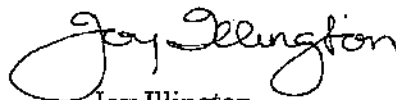
Cabinet approved the following recommendations of the Committee:

Item 1: BC Ferries - Catamaran Ferries International Divestiture Options;

Item 2: BC Ferries: Strategic Overview;

Item 3: ICBC: Surrey Centre Update; and

Item 4: ICBC Competitive Strategies.



Joy Illington
Cabinet Secretary

cc: Tony Penikett

CABINET AGENDA

Wednesday, March 1, 2000

9:30 a.m. to 1:00 p.m.

Cabinet Chambers

Lunch will be served.

CONFIDENTIAL

No.	ITEM	MINISTERS/OFFICIAL RESPONSIBLE	TAB
A.	<u>CABINET MINUTES:</u>		
1.	Minutes of Previous Meeting: - February 16, 2000		1. *
B.	<u>NEW BUSINESS:</u>		
2.	For Information: Proposed Legislative Agenda 2000	John Heaney	2. *
3.	For Decision: BC Ferries - Strategic Issues	Paul Ramsey	3. TBD
4.	For Information: Budget 2000/01 Review	Paul Ramsey	4. TBD
C.	<u>COMMITTEE BUSINESS:</u>		
5.	Treasury Board Minutes: December 15, 1999 (Fisheries Renewal BC)	Paul Ramsey	5. *
6.	Regulations and Orders in Council Minutes: February 29, 2000	Jim Doyle	6. *
D.	<u>OTHER BUSINESS (Status Reports):</u>		
7.	Intergovernmental Relations Status Report	Premier Dosanjh	7. *
8.	State of the Province	Premier Dosanjh	8. VER

* Material enclosed
TBD To be distributed at meeting
VER Verbal presentation

TAB THREE

FOR DECISION:

BC FERRIES - STRATEGIC ISSUES

Material will be distributed at the meeting.

**British Columbia Ferry Corporation
BRIEFING DOCUMENT**

TO: Cabinet Committee	DATE REQUESTED:	February 24, 2000
	DATE REQUIRED:	February 28, 2000
	DATE PREPARED:	February 27, 2000

Initiated By: Bob Lingwood
President and CEO

Phone #/E-MAIL: 978-1297
bob.lingwood@bcferries.com

Ministry Contact: Rob Clarke
Vice-President,
Finance & Corp. Services

Phone #/E-MAIL: 978-1302
rob.clarke@bcferries.com

REF #:

TITLE: Accounting for Debt Rescission (forgiveness) of Debt of the British Columbia Ferry Corporation (BC Ferries) and for a potential write down of the fast ferries.

PURPOSE:

(X) **DECISION REQUIRED**

COMMENTS:

Treasury Board approved a \$1 billion debt rescission (forgiveness) for BC Ferries by the provincial government. This is to be discussed at Cabinet Wednesday March 1, 2000. This briefing note summarizes the basic options and issues for assuming \$1 billion in BCFC debt and for a potential write down of fast ferries.

STRICTLY CONFIDENTIAL

DATE PREPARED: February 27, 2000

TITLE: Accounting for Debt Rescission (forgiveness) of Debt of the British Columbia Ferry Corporation (BC Ferries) and for a potential write down of the fast ferries.

ISSUE:

- As a result of Treasury Board's decision that the government assume \$1 billion of BC Ferries (BCFC) debt, there are a number of issues on how this transaction will be recorded in the financial statements of BCFC, the Consolidated Revenue Fund (CRF), and the Summary Financial Statements.
- The impact on the current and future year operating results of BCFC, the CRF and the Summary Financial Statements depends upon the timing of the transaction and the accounting treatment used for the forgiven debt.
- As well, a potential exists for further write-downs of the fast ferries beyond those recorded in 1998/99. Resolution of this issue could affect the accounting and current and future year operating impacts on BCFC, the CRF and the Summary Financial Statements.

BACKGROUND:

- In a recent submission to Treasury Board, BC Ferries outlined various options that would help resolve its current financial problems. As a result, Treasury Board agreed to essentially forgive \$1 billion debt (fiscal agency loans) owed to the government by BCFC. This step will address the majority of the Corporation's financial problems but is not sufficient on its own to make the Corporation solvent.
- By March 31, 2000, BCFC will have over \$1 billion in total debt and a net accumulated deficit of \$274 million (\$524 million of accumulated annual losses partially offset by a \$250 million provincially contributed surplus, expensed by the CRF several years ago).
- Analysis done by BC Ferries on the implications of full PacifiCat service on Route 2 (Horseshoe Bay – Departure Bay) has concluded that this option is not viable. BC Ferries is continuing to analyse other options for the use of the PacifiCats, including disposal. This work is the subject of a separate Cabinet Briefing Note.
- The potential disposal of one or all of the PacifiCats would trigger further write-downs for the fast ferries, which has not been factored into the latest accumulated deficit projections. Based on current market information, and recent indications that the government may consider selling the fast ferries, a further write-down in the order of \$80 million per vessel (or \$240 million total) could ultimately be requested by BC Ferries' external auditors.

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- BC Ferries currently receives 1.25¢ of the provincial motor fuel tax worth approximately \$72 million per year. Taking into account current legislated gas tax allocation to Translink, there is only .5¢ per litre available to give BC Ferries on an ongoing basis, i.e. an additional \$29 million per year.
- No appropriation currently exists in either 1999/00 or 2000/01 for the assumption of the BC Ferries debt by the CRF. The Office of the Comptroller General (OCG) advises that such an appropriation could be provided by special warrant, supplementary supply or preferably a restructuring act.
- The continuation of the 1.25¢ per litre motor fuel tax, forgiveness of \$1 billion of debt, and the write-down of the PacifiCats will make BCFC solvent and provide a sustainable financial framework for the corporation.

DISCUSSION:

Debt Rescission (Forgiveness)

The OCG advises that there are four basic options for recording the debt forgiveness as follows (a summary of the financial impact of each option is provided on attachment 1):

(1) Entire Debt Forgiveness as CRF Grant: BCFC Contributed Surplus

- Treat the full \$1 billion amount as a CRF grant to BCFC in year of forgiveness. BCFC would eliminate its net accumulated deficit (including further potential fast ferry write-downs) and record the balance to contributed surplus.
- This transaction would be recorded as a one-time expense of the CRF. If recorded in 1999/00, a new spending authority would be required as noted above.
- In the most recent Quarterly report the CRF was projected to have a deficit of \$401 million. This forgiveness would increase the CRF projected deficit to \$1.4 billion versus a budgeted deficit of \$890 million. This assumes the \$200 million forecast allowance is not available for this purpose. There is no impact of the forgiveness on the Summary Financial Statements.

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(2) An alternative to debt rescission is to increase the operating contribution.

- The province already assists the operations of BCFC through an allocation of motor fuel tax revenues (1.25 ¢ per litre or \$72 million annually). Such support could be increased so BCFC operates in a break even or better position and the accumulated deficit is reduced. Increasing the operating grant by the required \$80 million per year (to more than cover the costs of debt financing) means that there isn't sufficient gas tax room left without increasing gas taxes. Therefore, the remainder would need to be an operating grant included in the 2000/01 budget.
- Care would also be needed to ensure such operating grants are not tied to BCFC's debt financing in such a manner that they create fiscal agency loans funded through future appropriations. The OCG advises that their auditors have previously qualified their audit opinion due to the inclusion of such assets on the CRF balance sheet. They argue that since such loans are dependent on future contributions, i.e. government appropriations, they should be expensed as issued. This means that any increase in operating grants should be for operating expenses not for capital.
- This option would not address BC Ferries' Balance Sheet. The Shareholder's Deficiency would continue for several years into the future. This would likely require the Minister of Finance to continue issuing a letter of assurance to BC Ferries' external auditors in order to avoid a qualified opinion of BC Ferries' Financial Statements as the issue of the Corporation as a going concern would remain.

(3) Partial debt rescission and increased operating grant:

- It would also be possible to remit half or some other portion of the total \$1 billion debt rescission and increase the operating contribution accordingly. The example provided in attachment 1 assumes one half or \$500 million of the debt would be forgiven and the operating grant increased by half of what is proposed if only the operating grant increase were provided.
- This also does not deal fully with the Balance Sheet clean up, but does go part way toward this end.

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Write down of fast ferries

- In 1998/99, BCFC wrote down the value of the fast ferries by \$48 million (\$16 million per ferry). The auditors of BCFC are now investigating whether or not a further write-down should occur given recent market information and indications that the government may consider selling the fast ferries.
- BCFC has argued to its auditors that the fast ferries have an economic value because it is the intention of BCFC that the ferries continue to be used. Normal accounting practice would preclude writing tangible capital assets down to market value as long as the future use of the asset has an economic justification. A write-down, therefore, appears to hinge on what the government intends to do with the vessels.
- If the ferries are put up for sale a further write-down will be needed. Attachment 2 details three catamaran type fast ferries currently on the open market, and compares them with the PacifiCat fast ferries. The most comparable of these vessels, the *Mads Mols*, can operate on any ocean, whereas the PacifiCats are restricted to use in sheltered waters. On the basis of an asking price for the *Mads Mols* of US\$38 Million (CDN\$ 55 Million), it would be reasonable to assume that the market value of the PacifiCats would be in the order of CDN\$40 Million. This would require a write-down in the order of \$80 million per vessel, or \$240 million in total. More work is required to establish the market value of the PacifiCats, and this work is underway. However, any further write-down should be booked conservatively, to ensure that, in the event of disposal of one or all of the PacifiCats, no further write-downs would be required.
- Timing of recognition may also be a factor. A write-down can be deferred until next year since the ferries are being used on the intended route. However, consideration should be given to whether or not it is better to write-down the boats this year, i.e., at the same time as the debt rescission.
- By itself, a further write-down of the fast ferries does not affect the CRF but it does impact the Summary Financial Statement results. The amount and timing of the write-down does affect the various fiscal outcomes of accounting for the decision to forgive \$1 billion of BCFC debt owed to the CRF.
- Attachment 1 also includes a summary of the potential financial impact of this decision.

OPTIONS:

Debt forgiveness/Operating Grant:

1. Treat full amount as a grant to BC Ferries in year of forgiveness. BC Ferries to eliminate accumulated deficits and balance to contributed surplus.
2. Leave debt with BC Ferries but increase its operating grant by approximately \$80 million.
3. Remit \$500 million debt and increase operating grant by \$40 million.

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Fast Ferry write-down:

1. Leave book value as currently in BC Ferries; will be used in BC Ferries provision of service.
2. Write-down value of fast ferries to reflect latest market value for fiscal 1999/00.
3. Plan for write-down in fiscal 2000/01, once final decisions are made on ultimate use of fast ferries.

RECOMMENDATION:

Debt forgiveness/Operating Grant:

Option 1.

Fast Ferry write-down:

Option 2.

Attachments

	Debt Rescission Options and Impact			Write off of Fast Ferries	
	\$1 billion Debt Rescission - Grant	Increase operating grant	Rescind \$500 million debt and increase operating grant by \$40 million	Immediate Write off (1999/00)	Future Write off (2000/01)
	In Millions			In Millions	
Summary statements					
1999/00:				(240)	(240)
Assets - increase (decrease)					
Debt - decrease (increase)				240	240
Operating Deficit increase (decrease)				(13)	(240)
2000/01:					
Assets - increase (decrease)					
Debt - decrease (increase)					
Operating Deficit increase (decrease)					
No impact on Summary Statements					
Consolidated Revenue Fund					
1999/00:	(1,000)		(500)		
Assets - increase (decrease)	-		500		
Debt - decrease (increase)	1,000				
Operating Deficit increase (decrease)					
2000/01:					
Assets - increase (decrease)					
Debt - decrease (increase)	64	80	72		
Operating Deficit increase (decrease)					
BC Ferry Corporation					
1999/00:				(240)	(240)
Assets - increase (decrease)					
Debt - decrease (increase)	1,000		500		
Equity - decrease (increase)	(1,000)		(500)	240	240
Operating Deficit increase (decrease)					
2000/01:					
Assets - increase (decrease)					
Debt - decrease (increase)					
Operating Deficit increase (decrease)	(62)	(80)	(71)	(13)	

FAST FERRIES FOR SALE

February 25, 2000.

	AVANT	FELIX	MADS MOLS	PCAT
Year built	1993	1996	1998	1999
Yard	Incat, Australia	Austal, Australia	Incat, Australia	CFI, Canada
Owner	American FF	Scandlines	Mols Line	BC Ferries
Country	Malta	Denmark	Denmark	Canada
Passengers	430	650	800	973
Cars	88	156	220	215
Length (m)	74.3	82.3	91.3	122.5
Beam (m)	26.0	23.0	26.0	25.8
Draft (m)	2.4	3.1	3.7	3.9
Deadweight (t)	200	130	400	524
Engines	4 Caterpillars	4 MTU	4 Caterpillars	4 MTU
Power (kW)	16,200	24,000	28,800	26,000
Speed (knots)	35.0	36.0	43.0	35.0
Asking Price	\$US 14 m	\$US 23 m	\$US 38 m	

Note: The three vessels on the secondhand market are significantly more seaworthy than the Pacificat due to their greater freeboard between the two hulls. As a result their market value is enhanced because of the variety of conditions in which they can operate. This was demonstrated by all three delivery voyages which took place under their own power from Australia to Europe.

**British Columbia Ferry Corporation
BRIEFING DOCUMENT**

TO: Cabinet Committee

DATE REQUESTED: February 24, 2000

DATE REQUIRED: February 28, 2000

DATE PREPARED: February 27, 2000

Initiated By: Bob Lingwood
President and CEO

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Ministry Contact: Rob Clarke
Vice-President,
Finance & Corp. Services

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rob.clarke@bcferries.com

REF #:

TITLE: Provisions for the divestiture of Catamaran Ferries
International Inc. (CFI).

PURPOSE:

(X) **DECISION REQUIRED**

COMMENTS:

CFI is a subsidiary of British Columbia Ferry Corporation (BCFC), formed in March 1996 to manage the fast ferry construction program. During the 2000/2001 fiscal year, CFI will deliver the third PacifiCat to BC Ferries. This briefing note summarizes the basic options for the future of CFI, assuming that it will no longer be desirable as a subsidiary of BCFC.

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CABINET BRIEFING NOTE

TITLE: Provisions for the divestiture or winding-up of Catamaran Ferries International Inc. (CFI).

DECISION REQUESTED

This submission seeks authority to undertake activities to finalize plans for the divestiture of Catamaran Ferries International Inc.

BACKGROUND

CFI is a subsidiary of British Columbia Ferry Corporation (BCFC), formed in March 1996 to manage the fast ferry construction program.

In addition to its purpose as the project manager for the construction of the three PacifiCat vessels, it was given provincial objectives for

- Regeneration of a sustainable high-technology BC shipbuilding industry
- maximizing economic and industrial benefits

International Fast Ferry Market Conditions and CFI's Market Position

It is estimated that there are approximately 90 car-carrying fast ferries currently in operation. Over the next five years, it is anticipated that the global market for car-carrying catamaran fast ferries will be about 11 deliveries per year, with a total projected annual market of US\$440 million.

Australia has emerged as the dominant player in the specialized market for fast car ferries, with 30 % of the world market. Spanish and Italian shipbuilders are also competitive. These countries all have direct subsidy programs for shipbuilders that are not available in BC/Canada. They also have labour cost advantages.

The PacifiCat vessels are amongst the largest aluminum catamaran vessels built. CFI is targeted toward the construction of large craft as there are several yards worldwide targeted toward building smaller catamarans. As a result CFI has relatively higher infrastructure costs in its assembly facility and equipment.

Over the PacifiCat construction program, CFI has improved its labour productivity so that PacifiCat-1 costs were 50 % labour while PacifiCat-3 costs will entail only 44 % labour. However, CFI's wage rates are 15 – 25 % above the world market and productivity is 65 – 70 % of the Australian level.

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DISCUSSION

Potential Work – Construction of Two Vessels

CFI has signed a letter of intent with a US corporation for the construction of two 72-metre car-carrying fast ferries to operate on the Great Lakes. The vessels are estimated to have a market price of approximately US\$27 million (C\$39 million). The Letter of Intent contains a confidentiality clause.

The construction of these vessels will generate 600 – 700 person-years of employment and \$6 million in provincial tax revenues.

Two options have been developed to respond to this opportunity, and at the same time achieve the divestiture of CFI. They are referenced here as the Brokered Deal and the Stand-Alone Shipyard. A third option, the sale of CFI or its assets on an 'as is' basis, has also been assessed.

Key Activities

Four key activities are needed to accomplish the first two options.

- ***Finalise Contract***
In order to proceed with either option, it is necessary to finalise a construction contract with the potential customer. Discussions are ongoing.
- ***Divestiture with Brokered Deal (Option 1)***
This option involves the sale of CFI along with the contract to build the two Great Lakes vessels to a qualified purchaser. The attractiveness of CFI to a potential buyer is significantly enhanced by the construction contract. Divestiture with a brokered deal could be achieved by the end of September, 2000.
- ***Divestiture by Establishing a Stand-Alone Shipyard (Option 2)***
Following approval of this option, a stand-alone shipyard would be established and the Great Lake vessels constructed therein. Divestiture of CFI would be accomplished by selling it to the private sector over a period of time. The sales process would begin after successful delivery of one of the Great Lakes vessels, thereby validating a number of key assumptions of the business plan for establishing a stand-alone shipyard.

A key component to finalising a construction contract with the customer is the establishment of take-out financing competitive with what is available to US yards under the US Federal Ship Financing Program.

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Financial Considerations

Option 1, divestiture with a brokered deal, will require a provincial subsidy of \$9.0 million, plus financing arrangements.

Precise quantification of the financial implications of Option 1 would be provided through the development of a divestiture framework.

Option 2 (establishing a stand-alone shipyard), will require a \$16 million provincial subsidy, plus financing arrangements. The higher subsidy is largely attributed to building and infrastructure expansion (\$4.9 million) and training, market research and business plan preparation (\$0.9 million).

Determination of the broader financial implications of Option 2 requires the preparation of a comprehensive business plan.

OPTIONS

1. Authorize BCFC to engage in negotiations directed toward structuring a construction contract for two car-carrying aluminum vessels that will facilitate the transfer of the construction contract and ownership of CFI to the private sector [the Brokered Deal].
2. Authorize BCFC to engage in negotiations directed toward structuring a construction contract for two car-carrying aluminum vessels that will facilitate the establishment of a stand-alone shipyard and the progressive privatization of that shipyard during the course of the construction contract [the Stand-Alone Shipyard].
3. Authorize BCFC to initiate processes for the disposal of the assets of Catamaran Ferries International Inc., on an 'as is' basis. Such a sale would be completed after the delivery of the third PacifiCat to BC Ferries. It is anticipated that a sale of this nature would generate proceeds in the \$2.5 million to \$5.0 million range.

JUSTIFICATION

The future of CFI relates to provincial objectives for (1) regeneration of a sustainable high-technology BC shipbuilding industry, and (2) maximizing economic and industrial benefits.

- **Option 1** does not add significant value to CFI and requires additional investment by the province. It does not materially contribute to maximizing

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cost recovery for the province. It does provide an avenue to continue to promote the development of a BC-based, world class, fast car ferry yard, at less risk than the alternative.

- **Option 2** maximizes the potential opportunity for provincial cost recovery from the fast ferry program, assuming a business plan can be developed that transfers the entity as a profitable going concern. It requires the highest level of further investment by the province.
- **Option 3** represents the least risk, with little opportunity of a continuing high tech ship building industry.

In the absence of the Great Lakes construction contract, and interested buyers for the facility appearing in the near-term, Option 3 may be the only one available.

IMPLICATIONS

The future of CFI is linked to the future of the PacifiCat fast ferries and the aluminum shipbuilding industry in British Columbia. Government decisions regarding CFI will be linked to both of these issues.

RISK ASSESSMENT

In the event that further investment is made in CFI in order to position it for divestiture, any further investment is at 100 % risk to the province.

- Option 1 subsidy of approximately C\$9.0 million. This is estimated to produce a cost to the province (net of tax revenues) of \$3.0 million.
- Option 2 entails a subsidy of C\$16 million, and a net cost to the Province (after tax revenues) of C\$10 million

The salvage value of CFI as currently existing is estimated at \$2.5 – 5 million. In this range, the impact on BCFC's books is negligible. Therefore there is no additional risk to the sale of CFI on an 'as is' basis, and the extent of the opportunity is a maximum of \$5 million.

RECOMMENDATION

Authorize BCFC to proceed with the sale of CFI on an 'as is' basis, and obtain the best possible salvage value.

CONFIDENTIAL
British Columbia Ferry Corporation
BRIEFING DOCUMENT

TO: Cabinet Committee

DATE REQUESTED: February 24, 2000

DATE REQUIRED: February 28, 2000

DATE PREPARED: February 27, 2000

Initiated By: Bob Lingwood
President and CEO

Phone #/E-MAIL: 978-1297
bob.lingwood@bcferries.com

Ministry Contact: Bob Lingwood

REF #:

TITLE: The future of the three PacifiCat fast ferries.

PURPOSE:

(X) DECISION REQUIRED

COMMENTS:

The Corporation is currently examining the deployment of the PacifiCat fast ferries on Route 2 (Horseshoe Bay to Nanaimo). The corporation is also examining other deployment options and/or sale of the vessels.

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DATE PREPARED: February 27, 2000

TITLE: The future of the three PacifiCat fast ferries.

ISSUE:

- The operating costs of the PacifiCat vessels have had a significant impact upon the overall costs of operating the system (Horseshoe Bay to Nanaimo), while revenues have not increased.
- Issues of customer service and wake/wash impacts all affect the ability of the vessels to perform as originally intended. The corporation has been examining the vessels not only on Route 2 (Horseshoe Bay to Nanaimo) as was originally intended, but BC Ferries is also examining other deployment options and/or sale of the vessels.
- Analysis to date clearly indicates that the PacifiCats should not be operated on the Horseshoe Bay to Departure Bay Route. A final recommendation on redeployment or the sale of one or more of the vessels is expected by March 30, 2000.

BACKGROUND:

The original plan for operating the fast ferries contemplated their exclusive use on Route 2 (Horseshoe Bay – Departure Bay), replacing the existing C-Class ferries. The fast ferries greater speed and smaller capacity was intended to result in more frequent departures, thus reducing congestion at both terminals and mitigating the need for very expensive terminal expansions. The faster crossing time and the uniqueness of the new service and technology was also expected to result in a significant lift in traffic growth. Premium time-of-day pricing and reservations would manage this growth and provide additional revenues.

The PacifiCat Explorer entered service in June 1999 followed by the PacifiCat Discovery in January 2000. With the delivery of first two PCats the plan had been to commence exclusive fast ferry service on Route 2. However, due to operational, financial and customer service issues it was decided to revert to the combined PCat/C-Class service in February 2000.

The fast ferries have not performed according to original expectations. Instead of completing a roundtrip in 3 hours, the anticipated best time is now 3 hours, 20 minutes due to speed and wake/wash issues. Thus instead of 6 roundtrips per day, the practical limit is 5 or perhaps only 4 roundtrips. Due to weight restrictions they are carrying an average of 215 autoequivalents (AEQs) instead of 250 AEQs. In the original plan the only limitation on vehicle type was large commercial vehicles. However, due to more severe weight restrictions, the limits now include two buses, recreational vehicles under 28 feet, and no heavy commercial vehicles. Passenger comfort becomes an issue as the passenger license of 973 is approached.

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Originally the three PCats were to replace three C-Class with equal overall capacity except for the large commercial vehicles. In practice, the PCats cannot provide the same operational capacity as the C-Class.

The original plan also contemplated that the C-Class vessels displaced from Route 2 would be shifted to Route 1 (Tsawwassen – Swartz Bay) where the older V-Class vessels would be retired. However, due to the anticipated shift of commercial and RV traffic to Route 30 (Tsawwassen – Duke Point) an additional C-Class vessel will need to be deployed to that route. Analysis as part of the Corporation's Five Year Capital Plan has determined that the three V-Class vessels on Route 1 are in better condition than originally expected and should have 6-10 years of remaining life.

Based on their operation to date it has been determined that the fast ferries have approximately double the fuel and maintenance costs compared to the C-Class vessels. Crewing levels are lower on the PCats but taking into account the premium wage rates that are paid for these vessels and the overtime premiums required for five roundtrips results in labour costs that are roughly equivalent to the conventional C-Class vessels.

DISCUSSION:

The questions to be examined are:

1. Are the PCats suitable for use on Route 2?
2. Are the PCats suitable for use on Route 1?
3. Are the PCats suitable for use on other routes?
4. Should the PCats be sold and, if so, at what price?

(1) PCats on Route 2

Based on the operation of the first two PCats, a comprehensive analysis of their fulltime deployment on Route 2 is underway. This analysis has included the projected traffic growth over the next ten years. The preliminary conclusions are:

- The annual operating costs of three PCats on Route 2 are approximately \$11 million higher than the service previously provided by the C-Class vessels. However, the PCats are unable to carry the traffic on the busiest peak days nor during the shoulder season when only two PCats are available (due to the intensive maintenance schedule for these vessels).
- Due to the inability of the PCats to carry heavy commercial and recreational vehicles, this traffic has to be diverted to Route 30 (Tsawwassen – Duke Point). To handle this added volume it will be necessary to add a third vessel to Route 30 at an annual operating cost of approximately \$7.5 million.

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- In total, annual operating costs are estimated to be roughly \$19 million more for the PCat operation than the C-Class operation.
- Over 20 years the net present value of the PCat operation is substantially worse than the C-Class operation after incorporating the need to replace the C-Class vessels in approximately 15-20 years.

(2) PCats on Route 1

Based on the analysis to date, only the Route 1 option appears to provide any reasonable chance of better results than Route 2. The analysis assumed that two PCats would replace one of the V-Class currently operating on Route 1. Although the PCat operating costs are higher, this scenario eliminated the need to replace the V-Class vessel in eight years. However, this analysis was based on a number of optimistic assumptions that require further evaluation:

- The PCats would be capable of docking at Tsawwassen under conditions of strong winds and currents.
- Wake and wash from the PCats would be manageable in the Southern Gulf Islands.
- It would be possible to lay up the PCats during the winter season without the need for substantial start up costs when they are reactivated each spring.

Based on these assumptions it was determined that the proposed PCat scenario had a better net present value than the base case using the S-Class in conjunction with the V-Class vessels, which are assumed to be replaced in 2006 and 2008. If it is assumed that one V-Class would be replaced by a new \$130 million vessel in 2008 then the NPV of the PCat scenario is \$38 million better (i.e. \$19 million per PCat). If the V-Class is replaced in 2008 by a second-hand ship worth \$50 million then the NPV of the PCat scenario is about the same as the base case (i.e. the PCats have no value to the Corporation). In fact the PCats may be worth less if further analysis illustrates that the operating assumptions were too optimistic. Nevertheless, it does provide an indication that the value of the PCats to the Corporation is likely less than \$20 million per vessel.

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(3) PCats on other Routes

The use of the PCats on other routes has also been considered, including:

- Route 30 (Tsawwassen – Duke Point)
- A new route from Horseshoe Bay – Comox
- Prince Rupert – Port Hardy
- A new route between Nanaimo and Vancouver Harbour

Route 30 has the attraction of being a longer route and, therefore, more capable of taking advantage of the speed differential. However, Route 30 is primarily a truck route and carries relatively few cars. The existing ships on the route have excess capacity for cars.

The Inside Passage between Port Hardy and Prince Rupert is also a long route but probably too long for fast ferries of this type. Crewing and re-fuelling are problematic and wake/wash may be an issue. It is uncertain whether customers would be willing to pay a premium for speed on a route whose main attraction is the scenery.

Horseshoe Bay to Comox is another long route. Its primary disadvantage is that for most of the distance it parallels the new Inland Island Highway. Customers could travel from Horseshoe Bay to Nanaimo by fast ferry and then drive north to Comox in about the same time as the fast ferry would take to make the trip to Comox. Since the fast ferry would be travelling twice the distance compared to Horseshoe Bay to Nanaimo, the tariff would need to be doubled in order to deliver the same financial results.

A new route between Nanaimo and Vancouver Harbour has also been considered. This would require a new terminal. Speed restrictions in the harbour would detract from the service. The City of Vancouver would probably not look favourably on more vehicles being deposited on city streets.

(4) Sale of PCats

There are a number of factors, which will likely make selling the fast ferries a lengthy process:

- With rapid developments in the fast ferry business over the past decade, most routes around the world which are suitable for this type of vessel already have them.
- It is not possible to sell them for domestic service in the U.S. due to the restrictions of the Jones Act.
- They are designed as sheltered waters vessels and, therefore, would not be suitable for many locations where other fast ferries are operating such as the English Channel and the Irish Sea.

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- Access to the upper car deck of the PCats is via shore ramps. Most terminals in the world are not equipped with these. Other fast ferries have internal ramps to upper car decks.

At the present time there are three fast ferries available on the second-hand market. Asking prices range from \$CAN 20 million to \$CAN 55 million. The analysis to date has shown that the PCats are likely worth less than \$20 million a piece to the Corporation. The details and comparisons to the PCats are provided in the following table.

	AVANT	FELIX	MADS MOLS	PCAT
Year built	1993	1996	1998	1999
Yard	Incat, Australia	Austal, Australia	Incat, Australia	CFI, Canada
Owner	American FF	Scandlines	Mols Line	BC Ferries
Country	Malta	Denmark	Denmark	Canada
Passengers	430	650	800	973
Cars	88	156	220	215
Length (m)	74.3	82.3	91.3	122.5
Beam (m)	26.0	23.0	26.0	25.8
Draft (m)	2.4	3.1	3.7	3.9
Deadweight (t)	200	130	400	524
Engines	4 Caterpillars	4 MTU	4 Caterpillars	4 MTU
Power (kW)	16,200	24,000	28,800	26,000
Speed (knots)	35.0	36.0	43.0	35.0
Asking Price	\$US 14 m	\$US 23 m	\$US 38 m	

OPTIONS:

1. Use the PCats exclusively on Route 2 as originally planned.
2. Deploy two PCats as supplementary vessels on Route 1, retire one V-Class vessel and sell one PCat.
3. Deploy PCats as niche market vessels on one or more routes and sell the remainder.
4. Sell all of the PCats.

CONCLUSION:

It is concluded that the PacifiCats should not be operated on Route 2. Preliminary analysis of alternative redeployment indicates that the value of the PCats on the second-hand market exceeds their value to BC Ferries.

CABINET MINUTES

March 1, 2000

Members Present:	Honourable Ujjal Dosanjh	(PREM)
	Honourable Graeme Bowbrick	(AETT)
	Honourable Gretchen Mann Brewin	(CF)
	Honourable Jim Doyle	(FOR)
	Honourable Corky Evans	(MAFF)
	Honourable Michael Farnworth	(HEA)
	Honourable Sue Hammell	(MIPS)
	Honourable Jenny Kwan	(CDCV)
	Honourable Harry Lali	(TH)
	Honourable Dale Lovick	(AA)
	Honourable Joy K. MacPhail	(LAB)
	Honourable Cathy McGregor	(MA)
	Honourable Dan Miller	(EM)
	Honourable Andrew Petter	(AG)
	Honourable Penny Priddy	(EDU)
	Honourable Jan Pullinger	(SDES)
	Honourable Paul Ramsey	(FCR)
	Honourable Joan Sawicki	(ELP)
	Honourable Joan Smallwood	(WE)
	Honourable Ian Waddell	(SBTC)
	Honourable Gordon Wilson	(EI)

A. CABINET MINUTES:

1. Minutes of Previous Meeting: February 16, 2000

Approved.

B. NEW BUSINESS:

2. For Information: Proposed Legislative Agenda 2000 (GPCO)

Cabinet discussed the timing of the Legislative Agenda, with the possibility of following the Throne and Budget speeches, with a package of parliamentary reform proposals including some of the Enns recommendations, and a fall session to introduce other legislation. This discussion will be continued in Caucus.

Cabinet directed the House Leader and John Heaney to speak to each Minister about legislation that is definitional, and about legislation that may have some commitments outstanding. A report will be made to Cabinet on a focused legislative package, and its state of readiness.

3. For Decision: BC Ferries - Strategic Issues (FCR)

Cabinet reviewed a document summarizing the basic options and issues for assuming debt of the BC Ferry Corporation and for a potential write-down of the fast ferries.

Cabinet directed that the \$1B debt be rescinded with an associated expense to the CRF in 1999/00. BC Ferry Corporation would eliminate its net accumulated deficit and record the balance to contributed surplus.

Cabinet also directed the write-down value of fast ferries was to reflect the latest market value for fiscal year 1999/00.

A package of ferry decisions will be announced next week by the Minister responsible for the BC Ferry Corporation.

4. For Information: Budget 2000/01 Review (FCR)

Cabinet received an overview of the current fiscal year and the proposed budget 2000/01 for information.

C. COMMITTEE BUSINESS:

5. Treasury Board Minutes: December 15, 1999 (Fisheries Renewal BC)

Cabinet approved the decision of Treasury Board's meeting of December 15, 1999 on the following item:

Item D: Funding Proposal for Fisheries Renewal BC.

6. Cabinet Committee on Regulations and Orders in Council: March 1, 2000


Cabinet reviewed a list of proposed Orders in Council and a list of Corridor Orders.

Cabinet approved the attached list of Orders in Council with the exception that Cabinet did not approve the OIC under the School Calendar Regulation to increase the number of non-instructional days to six in total. The list of Corridor Orders was corrected to include the Honourable Sue Hammell and her portfolio.

[Premier Dosanjh withdrew without participating in the discussion of the four Orders in Council appointing Judges of the Provincial Court.]

D. OTHER BUSINESS (Status Reports):7. Intergovernmental Relations Status Report

The Intergovernmental Relations Status Report was received.

8. State of the Province (PREM)

Joy Illington
Cabinet Secretary

To: Honourable Paul Ramsey
Minister of Finance and Corporate Relations

Date: March 7, 2000

Honourable Joy K. MacPhail
Minister responsible for BC Ferry Corporation

CONFIDENTIAL

Re: Cabinet Meeting of March 1, 2000

Following is an excerpt from the minutes of the Cabinet meeting of March 1, 2000 for your attention:

B. NEW BUSINESS:

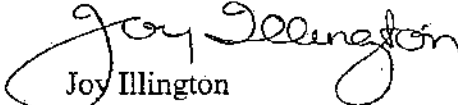
3. For Decision: BC Ferries - Strategic Issues (FCR)

Cabinet reviewed a document summarizing the basic options and issues for assuming debt of the BC Ferry Corporation and for a potential write-down of the fast ferries.

Cabinet directed that the \$1B debt be rescinded with an associated expense to the CRF in 1999/00. BC Ferry Corporation would eliminate its net accumulated deficit and record the balance to contributed surplus.

Cabinet also directed the write-down value of fast ferries was to reflect the latest market value for fiscal year 1999/00.

A package of ferry decisions will be announced next week by the Minister responsible for the BC Ferry Corporation.



Joy Illington
Cabinet Secretary

cc: Chris Trumpy
Jim Crone
Bob Lingwood

CABINET AGENDA

Wednesday, March 8, 2000

9:30 a.m. to 1:00 p.m.

Cabinet Chambers

Lunch will be served.

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No.	ITEM	MINISTERS/OFFICIAL RESPONSIBLE	TAB
A.	<u>CABINET MINUTES:</u>		
1.	Minutes of Previous Meeting: - March 1, 2000		1. *
B.	<u>NEW BUSINESS:</u>		
2.	For Decision: Stanley Park Causeway	Harry Lali	2. *
3.	For Decision: Legislative Package	Dale Lovick	3. TBD
4.	For Decision: B.C. Ferry Corporation Strategic Issues	Joy K. MacPhail	4. TBD
5.	For Decision: Forest Transition Workers Compensation	Paul Ramsey	5. *
C.	<u>COMMITTEE BUSINESS:</u>		
6.	Regulations and Orders in Council: March 8, 2000	Jim Doyle	6. *

D. OTHER BUSINESS (Status Reports):

- | | | | |
|----|---|-----------------|--------|
| 7. | Intergovernmental Relations Status Report | Premier Dosanjh | 7. * |
| 8. | State of the Province | Premier Dosanjh | 8. VER |

* Material enclosed
TBD To be distributed at meeting
VER Verbal presentation

TAB FOUR

FOR DECISION:

**B.C. FERRY CORPORATION
STRATEGIC ISSUES**

Material will be distributed at the meeting.

**British Columbia Ferry Corporation
BRIEFING DOCUMENT**

TO: Cabinet Committee

DATE REQUESTED: February 24, 2000

DATE REQUIRED: February 28, 2000

DATE PREPARED: February 27, 2000

Initiated By: Bob Lingwood
President and CEO

Phone #/E-MAIL: 978-1297
bob.lingwood@bcferries.com

Ministry Contact: Rob Clarke
Vice-President,
Finance & Corp. Services

Phone #/E-MAIL: 978-1302
rob.clarke@bcferries.com

REF #:

TITLE: Provisions for the divestiture of Catamaran Ferries
International Inc. (CFI).

PURPOSE:

(X) **DECISION REQUIRED**

COMMENTS:

CFI is a subsidiary of British Columbia Ferry Corporation (BCFC), formed in March 1996 to manage the fast ferry construction program. During the 2000/2001 fiscal year, CFI will deliver the third PacificCat to BC Ferries. This briefing note summarizes the basic options for the future of CFI, assuming that it will no longer be desirable as a subsidiary of BCFC.

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CABINET BRIEFING NOTE

TITLE: Provisions for the divestiture or winding-up of Catamaran Ferries International Inc. (CFI).

DECISION REQUESTED

This submission seeks authority to undertake activities to finalize plans for the divestiture of Catamaran Ferries International Inc.

BACKGROUND

CFI is a subsidiary of British Columbia Ferry Corporation (BCFC), formed in March 1996 to manage the fast ferry construction program.

In addition to its purpose as the project manager for the construction of the three PacifiCat vessels, it was given provincial objectives for

- Regeneration of a sustainable high-technology BC shipbuilding industry
- maximizing economic and industrial benefits

International Fast Ferry Market Conditions and CFI's Market Position

It is estimated that there are approximately 90 car-carrying fast ferries currently in operation. Over the next five years, it is anticipated that the global market for car-carrying catamaran fast ferries will be about 11 deliveries per year, with a total projected annual market of US\$440 million.

Australia has emerged as the dominant player in the specialized market for fast car ferries, with 30 % of the world market. Spanish and Italian shipbuilders are also competitive. These countries all have direct subsidy programs for shipbuilders that are not available in BC/Canada. They also have labour cost advantages.

The PacifiCat vessels are amongst the largest aluminum catamaran vessels built. CFI is targeted toward the construction of large craft as there are several yards worldwide targeted toward building smaller catamarans. As a result CFI has relatively higher infrastructure costs in its assembly facility and equipment.

Over the PacifiCat construction program, CFI has improved its labour productivity so that PacifiCat-1 costs were 50 % labour while PacifiCat-3 costs will entail only 44 % labour. However, CFI's wage rates are 15 – 25 % above the world market and productivity is 65 – 70 % of the Australian level.

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DISCUSSION

Potential Work – Construction of Two Vessels

CFI has signed a letter of intent with a US corporation for the construction of two 72-metre car-carrying fast ferries to operate on the Great Lakes. The vessels are estimated to have a market price of approximately US\$27 million (C\$39 million). The Letter of Intent contains a confidentiality clause.

The construction of these vessels will generate 600 – 700 person-years of employment and \$6 million in provincial tax revenues.

Two options have been developed to respond to this opportunity, and at the same time achieve the divestiture of CFI. They are referenced here as the Brokered Deal and the Stand-Alone Shipyard. A third option, the sale of CFI or its assets on an 'as is' basis, has also been assessed.

Key Activities

Four key activities are needed to accomplish the first two options.

- ***Finalise Contract***
In order to proceed with either option, it is necessary to finalise a construction contract with the potential customer. Discussions are ongoing.
- ***Divestiture with Brokered Deal (Option 1)***
This option involves the sale of CFI along with the contract to build the two Great Lakes vessels to a qualified purchaser. The attractiveness of CFI to a potential buyer is significantly enhanced by the construction contract. Divestiture with a brokered deal could be achieved by the end of September, 2000.
- ***Divestiture by Establishing a Stand-Alone Shipyard (Option 2)***
Following approval of this option, a stand-alone shipyard would be established and the Great Lake vessels constructed therein. Divestiture of CFI would be accomplished by selling it to the private sector over a period of time. The sales process would begin after successful delivery of one of the Great Lakes vessels, thereby validating a number of key assumptions of the business plan for establishing a stand-alone shipyard.

A key component to finalising a construction contract with the customer is the establishment of take-out financing competitive with what is available to US yards under the US Federal Ship Financing Program.

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Financial Considerations

Option 1, divestiture with a brokered deal, will require a provincial subsidy of \$9.0 million, plus financing arrangements.

Precise quantification of the financial implications of Option 1 would be provided through the development of a divestiture framework.

Option 2 (establishing a stand-alone shipyard), will require a \$16 million provincial subsidy, plus financing arrangements. The higher subsidy is largely attributed to building and infrastructure expansion (\$4.9 million) and training, market research and business plan preparation (\$0.9 million).

Determination of the broader financial implications of Option 2 requires the preparation of a comprehensive business plan.

OPTIONS

1. Authorize BCFC to engage in negotiations directed toward structuring a construction contract for two car-carrying aluminum vessels that will facilitate the transfer of the construction contract and ownership of CFI to the private sector [the Brokered Deal].
2. Authorize BCFC to engage in negotiations directed toward structuring a construction contract for two car-carrying aluminum vessels that will facilitate the establishment of a stand-alone shipyard and the progressive privatization of that shipyard during the course of the construction contract [the Stand-Alone Shipyard].
3. Authorize BCFC to initiate processes for the disposal of the assets of Catamaran Ferries International Inc., on an 'as is' basis. Such a sale would be completed after the delivery of the third PacifiCat to BC Ferries. It is anticipated that a sale of this nature would generate proceeds in the \$2.5 million to \$5.0 million range.

JUSTIFICATION

The future of CFI relates to provincial objectives for (1) regeneration of a sustainable high-technology BC shipbuilding industry, and (2) maximizing economic and industrial benefits.

- **Option 1** does not add significant value to CFI and requires additional investment by the province. It does not materially contribute to maximizing

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cost recovery for the province. It does provide an avenue to continue to promote the development of a BC-based, world class, fast car ferry yard, at less risk than the alternative.

- **Option 2** maximizes the potential opportunity for provincial cost recovery from the fast ferry program, assuming a business plan can be developed that transfers the entity as a profitable going concern. It requires the highest level of further investment by the province.
- **Option 3** represents the least risk, with little opportunity of a continuing high tech ship building industry.

In the absence of the Great Lakes construction contract, and interested buyers for the facility appearing in the near-term, Option 3 may be the only one available.

IMPLICATIONS

The future of CFI is linked to the future of the PacifiCat fast ferries and the aluminum shipbuilding industry in British Columbia. Government decisions regarding CFI will be linked to both of these issues.

RISK ASSESSMENT

In the event that further investment is made in CFI in order to position it for divestiture, any further investment is at 100 % risk to the province.

- Option 1 subsidy of approximately C\$9.0 million. This is estimated to produce a cost to the province (net of tax revenues) of \$3.0 million.
- Option 2 entails a subsidy of C\$16 million, and a net cost to the Province (after tax revenues) of C\$10 million

The salvage value of CFI as currently existing is estimated at \$2.5 – 5 million. In this range, the impact on BCFC's books is negligible. Therefore there is no additional risk to the sale of CFI on an 'as is' basis, and the extent of the opportunity is a maximum of \$5 million.

RECOMMENDATION

Authorize BCFC to proceed with the sale of CFI on an 'as is' basis, and obtain the best possible salvage value.

CABINET MINUTES

March 8, 2000

Members Present:	Honourable Ujjal Dosanjh	(PREM)
	Honourable Graeme Bowbrick	(AETT)
	Honourable Gretchen Mann Brewin	(CF)
	Honourable Jim Doyle	(FOR)
	Honourable Corky Evans	(MAFF)
	Honourable Michael Farnworth	(HEA)
	Honourable Sue Hammell	(MIPS)
	Honourable Jenny Kwan	(CDCV)
	Honourable Harry Lali	(TH)
	Honourable Dale Lovick	(AA)
	Honourable Joy K. MacPhail	(LAB)
	Honourable Andrew Petter	(AG)
	Honourable Penny Priddy	(EDU)
	Honourable Jan Pullinger	(SDÉS)
	Honourable Paul Ramsey	(FCR)
	Honourable Joan Sawicki	(ELP)
	Honourable Ian Waddell	(SBTC)
	Honourable Gordon Wilson	(EI)
MEMBERS ABSENT:	Honourable Cathy McGregor	(MA)
	Honourable Dan Miller	(EM)
	Honourable Joan Smallwood	(WE)

A. CABINET MINUTES:

1. Minutes of Previous Meeting: March 1, 2000

Approved.

B. NEW BUSINESS:

2. For Decision: Stanley Park Causeway (TH)

Cabinet reviewed a document entitled "Stanley Park Comprehensive Safety Plan", dated March 2, 2000.

Cabinet approved the Comprehensive Safety Plan with the following conditions:

1. work is to proceed with all practical environmental mitigation measures including minimal tree removal; and
2. ensure that there are electronic monitoring devices to prevent speeding.

3. For Decision: Legislative Package

Cabinet reviewed a list of potential legislation.

Cabinet directed the House Leader and the Deputy Minister of GPCO to narrow the list by using the screens of government priorities, readiness of the legislation and timing for the spring or fall session of the legislature. Exposure bills may be considered depending on the target group and subject matter.

4. For Decision: BC Ferry Corporation Strategic Issues

Cabinet reviewed a document, "Provisions for the Divestiture of Catamaran Ferries International Inc. (CFI)", dated February 27, 2000. The President and CEO of BCFC provided a verbal update, and a value range.

Cabinet approved Option 3 and authorized BCFC to initiate processes for the disposal of the assets of Catamaran Ferries International Inc., on an "as is" basis. The Minister responsible will communicate the business case for the decision.

For Decision: Election Act Challenge

Cabinet reviewed the issue of whether to appeal a recent decision of the BC Supreme Court in *Pacific Press Ltd. v. AGBC* and *Garry Nixon v. AGBC*.

Cabinet approved Option 3: do not appeal the decision: monitor the progress of federal legislation that contains similar provisions on third party election advertising spending limits and requires polling methodology publication.

5. For Information: Forest Transition Workers Compensation (FCR)

Cabinet reviewed a briefing note "Status of Tax Relief for FRBC's Forest Worker Transition Program Recipients", dated March 7, 2000.

Cabinet approved the recommendation of a tax relief package for an amount determined to be the BC personal income tax liability related to the income support payments clients received under the program and an interest relief payment for clients with outstanding federal taxes related to the income support payments received. The outstanding issue that must be resolved prior to any announcement of the tax relief is whether the tax relief provided by FRBC is itself taxable.

C. COMMITTEE BUSINESS:**6. Cabinet Committee on Regulations and Orders in Council: March 8, 2000**

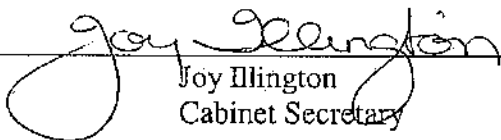
Cabinet reviewed a list of proposed Orders in Council and a list of Corridor Orders.

Cabinet approved the attached list of Orders in Council with the correction of the Order in Council appointing Sharon Olsen which should be as Special Assistant, and should not include Remick Ho who is already an Executive Assistant.

D. OTHER BUSINESS (Status Reports):**7. Intergovernmental Relations Status Report**

The Intergovernmental Relations Status Report was received.

8. State of the Province (PREM)


Joy Illington
Cabinet Secretary

To: Honourable Joy K. MacPhail
Minister responsible for BC Ferry Corporation

Date: March 16, 2000

Honourable Paul Ramsey
Minister of Finance and Corporate Relations

CONFIDENTIAL

Re: Cabinet Meeting of March 8, 2000

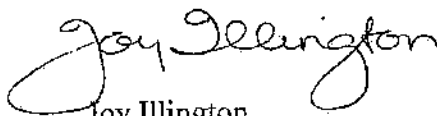
Following is an excerpt from the minutes of the Cabinet meeting of March 8, 2000 for your attention:

B. NEW BUSINESS:

4. For Decision: BC Ferry Corporation Strategic Issues

Cabinet reviewed a document, "Provisions for the Divestiture of Catamaran Ferries International Inc. (CFI)", dated February 27, 2000. The President and CEO of BCFC provided a verbal update, and a value range.

Cabinet approved Option 3 and authorized BCFC to initiate processes for the disposal of the assets of Catamaran Ferries International Inc., on an "as is" basis. The Minister responsible will communicate the business case for the decision.



Joy Illington
Cabinet Secretary

cc: Chris Trumpy
Jim Crone
Bob Lingwood

CABINET AGENDA

Wednesday, February 28, 2001

2:00 p.m. to 5:00 p.m.

Cabinet Chambers

CONFIDENTIAL

No.	ITEM	MINISTERS/OFFICIAL RESPONSIBLE	TAB
A.	<u>CABINET MINUTES:</u>		
1.	Minutes of Previous Meeting: - February 21, 2000		1. *
B.	<u>NEW BUSINESS:</u>		
2.	For Information: Outstanding Issues between the Province and Translink	Mike Farnworth	2. *
3.	For Decision: Nuu-chah-nulth AIP: Meares Component	David Zirnhelt	3. *
C.	<u>COMMITTEE BUSINESS:</u>		
4.	Treasury Board Minutes: - February 13, 2001 - February 15, 2001 - February 22, 2001	Paul Ramsey	4. * * *
5.	Cabinet Committee on Regulations and Orders in Council: February 28, 2001	Graeme Bowbrick	5. TBD
D.	<u>OTHER BUSINESS (Status Reports):</u>		
6.	Intergovernmental Relations Status Report	Ian Waddell	6. *
7.	State of the Province	Premier Dosanjh	7. VER

* Material enclosed
TBD To be distributed at meeting
VER Verbal presentation

TREASURY BOARD CHAIR MINUTE

REQUEST No.: 04/01

CHAIR MEETING DATE: FEBRUARY 26, 2001

TITLE: DISPOSAL OF PACIFICAT FAST FERRIES BY THE BRITISH COLUMBIA FERRY CORPORATION (BCFC) CCS/MFCR

ISSUE SUMMARY:

British Columbia Ferry Corporation sought approval for negotiating parameters for the sale or lease of the three Pacificat Fast Ferries, during the summer of 2000.

Please find attached the minute from the Chair of Treasury Board's meeting of August 31, 2000, dealing with the issue.

Upon reviewing the minute on February 26, 2001, the Chair is proposing that the conditions in the August 31, 2000, minute be amended as follows:

- eliminate the reserve price per-vessel (to allow the Steering Committee to negotiate a possible sale or long-term lease that has a value that may be less than \$35 million net, per-vessel).

All the other conditions in the August 31, 2000, minute would remain in effect.

PLEASE NOTE THAT THE ELIMINATION OF THE RESERVE PRICE AND A SELLING OR LEASE PRICE THAT IS LESS THAN CURRENT BOOK VALUE PER-VESSEL, WILL LEAD TO A FURTHER WRITEDOWN OF THE VESSELS.

In addition, the Chair is proposing two process steps as follows:

- the Assistant Deputy Minister, Provincial Treasury, oversee a brief review of the market place for possible sale or long-term lease opportunities of the Pacificat Fast Ferries; and,
 - the Steering Committee report to the Chair of Treasury Board and the Minister Responsible for the BCFC (Minister of Education) to oversee any sale or long-term lease proposals before a proposal is brought to Cabinet.
-

CHAIR RECOMMENDATION:

CABINET APPROVE THE PROPOSED AMENDMENT TO THE CONDITIONS AS SUMMARIZED ABOVE.

CABINET APPROVE THE TWO PROPOSED PROCESS STEPS AS NOTED ABOVE.

THE REVISED CONDITIONS SUMMARY WOULD BE AS FOLLOWS:

CONDITIONS: (REVISED)

THIS APPROVAL IS SUBJECT TO THE FOLLOWING CONDITIONS:

- THE TIMELINE FOR SALE OR LEASE TRANSACTION(S) OF THE VESSELS SHALL NOT EXCEED 18 MONTHS;
 - THERE IS NO RESERVE PRICE PER VESSEL ON A POSSIBLE SALE OR LONG-TERM LEASE;
 - NEITHER BCFC NOR THE PROVINCE SHALL GIVE TAX INDEMNITIES NOR BEAR UNACCEPTABLE RISKS RELATED TO WARRANTIES, VENDOR FINANCING OR COUNTERPARTY DEFAULT ON OBLIGATIONS WHICH MAY NEGATIVELY IMPACT THE CORPORATION;
 - BOTH SALES AND LEASE TRANSACTION(S) SHALL BE SUBJECT TO CABINET APPROVAL; AND,
 - IN THE EVENT THAT THERE IS NO SALE OR LONG-TERM LEASE OF THE VESSELS, BCFC SHALL MAKE RECOMMENDATIONS TO TREASURY BOARD ON THE OPTIMAL DEPLOYMENT OF ONE, TWO OR THREE PACIFICAT VESSELS IN BCFC'S REVENUE SERVICE.
-

ATTACHMENT

**Treasury Board Submission 04/01; Disposal of Pacificat Fast Ferries
by British Columbia Ferry Corporation (BCFC) - CCS/MFCR**

Request: British Columbia Ferry Corporation sought approval for negotiating parameters for the sale or lease of the three Pacificat Fast Ferries.

Discussion/Comments:

Highlights of the proposed parameters are as follows:

- anticipated net sale price of \$35-48 million per vessel;
- sale will take 12 to 18 months; and,
- market generally seeks transactions involving vendor financing.

Negotiations will be overseen by a Steering Committee comprised of the President and Chief Financial Officer of BCFC, a BCFC Board member and the Assistant Deputy Minister Provincial Treasury (representing the Ministry of Finance and Corporate Relations).

Approved by: Chair

Date: August 31, 2000

Conditions:

This approval is subject to the following conditions:

- the timeline for sale or lease transaction(s) of the vessels shall not exceed 18 months;
 - the \$35 million reserve price per vessel shall be net of all transaction costs and the cost of any vessel modifications;
 - for long term lease(s), the reserve price shall be net proceeds of a present value of \$35 million based on the appropriate risk-adjusted discount rate;
 - neither BCFC nor the province shall give tax indemnities nor bear unacceptable risks related to warranties, vendor financing or counterparty default on obligations which may negatively impact the corporation;
 - both sales and lease transaction(s) shall be subject to Cabinet approval; and,
 - in the event that the \$35 million reserve price is not met, BCFC shall make recommendations to Treasury Board on the optimal deployment of one, two or three Pacificat vessels in BCFC's revenue service.
-

CABINET MINUTES

February 28, 2001

Members Present:	Honourable Ujjal Dosanjh	(PREM)
	Honourable Joy K. MacPhail	(ED)
	Honourable Graeme Bowbrick	(AG)
	Honourable Jim Doyle	(MA)
	Honourable Corky Evans	(HEA)
	Honourable Michael Farnworth	(SDS)
	Honourable Helmut Giesbrecht	(TI)
	Honourable Evelyn Gillespie	(WE)
	Honourable Sue Hammell	(MPS)
	Honourable Gerard Janssen	(SBTC)
	Honourable Edward John	(CF)
	Honourable Jenny Kwan	(CDCV)
	Honourable Cathy McGregor	(AET)
	Honourable Paul Ramsey	(FCR)
	Honourable Glenn Robertson	(EM)
	Honourable Joan Smallwood	(LAB)
	Honourable Tim Stevenson	(EI)
	Honourable Ian Waddell	(ELP)
	Honourable David Zirnelt	(AA)
Members Absent	Honourable Ed Conroy	(AFF)
	Honourable Gordon Wilson	(FOR)

A. CABINET MINUTES:

1. Minutes of Previous Meeting: February 21, 2001

Approved.

B. NEW BUSINESS:

2. For Information: Outstanding Issues between the Province and Translink

Cabinet received a briefing on a series of strategic options to resolve outstanding issues between the Province and Translink.

Cabinet directed that staff from the Ministry of Finance and Corporate Relations work with the Provincial Negotiator to clarify options with regard to Translink and report back to Cabinet.

The Minister responsible was asked to keep regional MLA's confidentially briefed on these issues.

3. For Decision: Nuu-chah-nulth AIP: Meares Component (AA)

Cabinet was requested to alter the mandate for Nuu-chah-nulth (NTC) negotiations, to address the ownership of Meares Island, which is the only remaining issue critical to concluding an Agreement in Principle.

Cabinet directed the 7,800 hectares of Crown land on Meares be conveyed as fee simple land to a Trust. The Trust would manage the land through a Board appointed in equal numbers by BC and the NTC, to give each party equal control over the land. This is conditional on Canada contributing \$9.45M to enable the establishment of the Trust.

Aboriginal Issues Working Group

Cabinet received a report of the Aboriginal Issues Working Group, endorsed their mandate to oversee a co-ordinated approach to the needs of all aboriginal people, and charged the committee to establish short and long-term plans and entrench deliverables.

Drinking Water Protection Plan

Cabinet received an update on the consultation on the proposed *Drinking Water Act* and Action Plan.

Cabinet directed that the Drinking Water Protection Plan be reviewed by Caucus before any public announcement.

Cabinet directed that the health related aspects of the Canadian Drinking Water Guidelines and where applicable the best practices of jurisdictions like the EPA be incorporated into the regulation.

Priority Legislation

Cabinet reviewed a list of priority legislation that work is underway to have prepared for the upcoming session.

Cabinet gave some direction on which were budget bills, and exposure bills and requested that proposals to protect Crowns against privatization be developed.

Cabinet requested the proposed legislation be taken to Caucus as soon as possible to be prioritized after that discussion.

C. COMMITTEE BUSINESS:**4. Treasury Board Minutes:**

- February 13, 2001

Cabinet approved the recommendations of Treasury Board on the following:

Item 1: Ministry of Health 2001/02 Capital Projects Request;

Item 2: Ministry of Advanced Education, Training and Technology 2001/02 Capital Projects Request; and

Item 3: Ministry of Education 2001/02 Capital Projects Request.

- February 15, 2001

Cabinet deferred the recommendations of Treasury Board on the following:

Item 1: Skytrain Extension Project, O&M Agreement and Start-Up Costs; and

Item 2: Installation of Gates at all Millennium Line Stations.

- February 22, 2001

Cabinet approved the decisions of Treasury Board on the following:

Item 1: 2001/02 Consolidated Revenue Fund Financing Transactions;

Item 2: Financial Mandate Requests for the Katzie, the Sto:lo and the Tsimshian First Nations; and

Item 3: MAETT request for Completion Funding of the UNBC Laboratory Addition and Approval of the Agora Link.

- Chair Minutes

Cabinet approved the recommendations of the Chair of Treasury Board made February 26, 2001 on the following:

Item 1: Disposal of Pacificat Fast Ferries by BCFC; and

Item 2: Modify the Formula used by the Liquor Distribution Branch to calculate mark-ups for Small Craft (or Cottage) Breweries.

5. Orders in Council: February 28, 2001

Cabinet reviewed a list of Orders in Council that had been vetted through the Cabinet Committee on Regulations and Orders in Council.

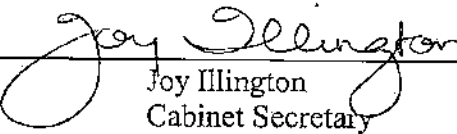
Cabinet approved the attached list of Orders in Council with the following amendments:

- an OIC for a Ministerial Assistant was withdrawn; and
- an OIC amending the Mental Health Regulation was deferred.

D. OTHER BUSINESS (Status Reports):6. Intergovernmental Relations Status Report

The Intergovernmental Relations Status Report was received.

8. State of the Province (PREM)


Joy Illington
Cabinet Secretary

To: Honourable Paul Ramsey
Chair, Treasury Board

Date: March 5, 2001

CONFIDENTIAL

Re: Cabinet Meeting of February 28, 2001

Following is an excerpt from the minutes of the Cabinet meeting of February 28, 2001 for your attention:

C. COMMITTEE BUSINESS:

4. Treasury Board Minutes:

- February 13, 2001

Cabinet approved the recommendations of Treasury Board on the following:

- Item 1: Ministry of Health 2001/02 Capital Projects Request;
- Item 2: Ministry of Advanced Education, Training and Technology 2001/02 Capital Projects Request; and
- Item 3: Ministry of Education 2001/02 Capital Projects Request.

- February 15, 2001

Cabinet deferred the recommendations of Treasury Board on the following:

- Item 1: Skytrain Extension Project, O&M Agreement and Start-Up Costs; and
- Item 2: Installation of Gates at all Millennium Line Stations.

...2

- February 22, 2001

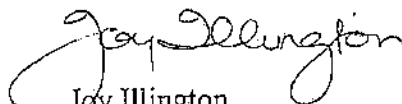
Cabinet approved the decisions of Treasury Board on the following:

- Item 1:** 2001/02 Consolidated Revenue Fund Financing Transactions;
- Item 2:** Financial Mandate Requests for the Katzie, the Sto:lo and the Tsimshian First Nations; and
- Item 3:** MAETT request for Completion Funding of the UNBC Laboratory Addition and Approval of the Agora Link.

- Chair Minutes

Cabinet approved the recommendations of the Chair of Treasury Board made February 26, 2001 on the following:

- Item 1:** Disposal of Pacificat Fast Ferries by BCFC; and
- Item 2:** Modify the Formula used by the Liquor Distribution Branch to calculate mark-ups for Small Craft (or Cottage) Breweries.


Joy Illington
Cabinet Secretary

cc: Chris Trumpy
Jim Crone