

BC Ferries 2015/16 Budget Increase

Estimates Note

Ministry of Transportation and Infrastructure

Date: March 20, 2015

ISSUE

- Increase to Ministry's Coastal Ferries Budget for 2015/16.

ADVICE AND RECOMMENDED RESPONSE

- The Ministry's 2015/16 budget reflects an increase of about \$1.4 million for coastal ferries.
- The ministry's funding to BC Ferries is based on a number of different components – some are fixed amounts while others, like the Social Programs, will vary based on price variations and usage.
- The budget reflects higher anticipated costs for the variable funding components such as the social programs.
- In 2015/16, total funding from BC and the Government of Canada to support coastal ferry services is expected to be over \$200 million.
- The level of provincial funding to support coastal ferries has increased by 65 percent since the beginning of the new model in 2003/04.
- Since 2003/04, total taxpayers funding to support coastal ferries is over \$2 billion.

BACKGROUND

- The Ministry of Transportation and Infrastructure's budget for 2015/16 is \$194,015.
- This amount reflects an increase of \$1.4 million over the previous year which was \$192,650.

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BC Ferries Connection Between Port Hardy & Bella Coola

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- BC Ferries connection between Port Hardy and Bella Coola.

ADVICE AND RECOMMENDED RESPONSE

- Over the last decade, Route 40 had reported significant annual financial losses before taxpayer contributions and had utilization rates between 30 and 40 per cent.
- The amount of money this route lost fluctuated from year to year, but the fact is, the route has always lost money.
- Maintaining the existing service was not sustainable, given the financial loss, the low utilization and the need for a new vessel.
- The decision to change the Discovery Coast ferry service was a tough one, and I recognize that there are impacts resulting from the changes.
- However, it was necessary to make these changes to help ensure the long-term affordability and sustainability of our coastal ferries and to keep fares down.
- We're hearing from ferry users that ferry fares are too high and we're working to address the financial pressures on the system and keep fares as low as possible.

if pressed on amount of loss:

- The loss on the route in 2013/14 was \$3.5 million. The previous year, it lost over \$7 million. The loss has fluctuated year over year but the fact is: it's always been a loss.

If pressed on report:

- The author acknowledges the results are preliminary, and there are gaps in the data.
- As for Route 40, here are three reasons for our decision: low utilization, \$37 million in losses over 11 years for a 13-week seasonal service, and the need for a new vessel, at about \$100 million.

If pressed on replacement of Nimpkish:

- The B.C. government recognizes the importance of the ferry service between Port Hardy and Bella Coola to the tourism industry in the Central Interior.
- Government is committed to working with stakeholders to ensure the long-term success of the Discovery Coast Circle Tour.
- At the same time, we are working to ensure the long-term affordability, efficiency and sustainability of our coastal ferries.
- This includes looking at innovative ways to ensure the ferry system remains sustainable.

BACKGROUND

- In November, the West Chilcotin Tourism Association released a report accusing the minister of misleading the public by providing inaccurate financial information about the operation of Route 40 – in particular, the loss on the route.

- The Association uses an average subsidy per vehicle since 2003. This does not reflect the current costs to provide the service in today's dollars (i.e., fuel and labour costs have increased, refit costs increase as the vessel ages.)
- The association is correct when they say the loss on the route in 2013/14 was \$3.4 million (actually \$3.5 million). Minister Stone refers to a loss of over \$7 million from 2012/13, which was the amount of the loss used during the province's public consultation in 2013. The loss has fluctuated year over year but it is always a loss.
- The total combined losses on Route 40 before taxpayer subsidies from 2003/04 to 2013/14 (11 years) is \$37.4 million which is significant for a seasonal service.
- The \$2,500 subsidy per vehicle figure used by the Ministry is based on the amount of the provincial service fee assigned to Route 40 in the final years leading up to the discontinuance of the route. Fact: 2012/13: \$5.342 M / 2,138 = \$2,498 per vehicle. It actually increases for 2013/14: \$5,495 M / 2,126 = \$2,585 per vehicle.
- The elimination of Route 40 will result in an estimated annual net savings of approximately \$725,000 per year, until the Queen of Chilliwack is retired.
- A Discovery Route summer service remains in place through a connector service where travellers can take Route 10 to Bella Bella and then use the Nimpkish connector service (Route 10S) to go to Shearwater, Ocean Falls or Bella Coola or vice versa.

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Coastal Ferries UBCM Socio-Economic Study

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- UBCM report “Boatswains to the Bollards: a Socioeconomic Analysis of BC Ferries”.

ADVICE AND RECOMMENDED RESPONSE

- I find the report to be a very simplistic analysis of a complicated situation, and it falls flat by not providing any new and beneficial ideas for the future of our coastal ferry system.
- There is no question of the link between fares and traffic levels.
- However, UBCM's analysis fails to take into consideration a number of factors that may have impacted ferry travel, including:
 - the economic downturn,
 - the growing use of air travel,
 - the changing travel patterns of an aging population,
 - the younger generation's move away from the “car culture, and
 - communication technology improvements which reduce the need for travel.
- That's exactly why our government has taken the actions we have over the last two years.
- Here's what stands out to me: the report suggests that all three levels of government benefit financially from ferry travelers. Yet the analysis notes that only the two senior levels of government contribute.
- Perhaps it's time for UBCM to encourage a positive and solution-oriented dialogue, and for municipalities to step up to contribute to coastal ferries, like they do for local transit and for some local highway improvement projects.
- As the ferry commissioner said in 2012, it could well be in the interests of a local government to invest in reducing ferry fares for their community, if the investment could be recouped from additional business activity, population growth, housing and so on.

If pressed on validity of analysis:

- The impact on the GDP is also significantly overstated, as the report assumes that over 90% of those estimated not to travel by ferry didn't spend money in B.C and that this was all a loss to the economy.
- While not included in the report, it is noteworthy that the relationship between the provincial taxpayer's support for ferry services (service fee and social program contribution) and ferry users contributions through fares (not including parking and other ancillary revenues) has remained the same over period.
- In 2003/04, tariff revenues from ferry users accounted for 67% of the cost of providing ferry service (including: operating, amortization and interest). In 2013/14 it was 68%.
- Conversely, the provincial contribution in 2003/04 towards the total cost of providing ferry service was 22%. In 2013/14 it was 24%.
- Despite significant fare increases over the period, taxpayers continue to pay a similar proportion of the costs as they did in 2003/04. In this respect, there has not been a transfer of the cost of ferry service to the fare payers.

BACKGROUND

- The report analyzes the impact of fare increases on ridership levels and the overall impact of BC Ferries on the provincial economy. The report found that BC Ferries stimulates a total of \$1.8 billion in expenditures each year, which in turn produces \$1.5 billion in total value-added GDP for BC.

- The report estimates that if fare increases from 2003-2013 had been limited to the rate of inflation, passenger volumes would have grown by 19%, adding \$2.3 billion to provincial GDP over that ten-year period. Instead, overall ridership over the same period declined by 11%. This foregone economic activity resulted in an estimated total loss of \$609 million in tax revenues from 2003-2013 at the federal, provincial and local levels of government.
- Other transportation services were compared in the report, such as regional transit, where local governments contribute to the cost of providing the service.
- Based on the relative tax benefits to the three jurisdictions, if the municipal governments provided a relative proportion of the contribution provided by the Province, they would inject about \$40 million per year into the ferry system. This would go a long way to bringing down fares in the future.

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Denman Island Cable Ferry

Estimates Note

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- Community resistance to conventional ferry serving Denman Island being replaced by a cable ferry.

ADVICE AND RECOMMENDED RESPONSE

- The \$15 million cable ferry contract awarded by BC Ferries to Seaspan's Vancouver Shipyards is good news for our province's shipbuilding industry.
- The cable ferry is expected to save BC Ferries \$2 million each year, or over \$80 million over its life.
- The BC Ferry Commissioner engaged independent experts to confirm both the design and financial analysis of the cable ferry project.
- A technical review by a naval architect concluded that the design of the cable ferry is sound and the vessel will be as reliable as the existing vessel.
- Moving to LNG propulsion vessels, replacing aging ships with more "no frills" vessels and exploring alternative technologies like this new cable ferry will all contribute to lower fuel costs in the future.

BACKGROUND

- On February 20, 2014, the BC Ferry Commissioner granted approval for a major capital expenditure for a new cable ferry based on conditions which are intended to satisfy the commissioner that operational reliability will be assured and that the projected life cycle cost savings will be achieved.
- At least one vessel on the minor routes will be retired so that the cable ferry does not result in a net increase in the overall size of the fleet.
- The cable ferry service is expected to commence during the summer of 2015.

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Feasibility of Gaming on BC Ferries

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- Feasibility of a gaming pilot project on one of BC Ferries' major routes.

ADVICE AND RECOMMENDED RESPONSE

- Our vision is for a coastal ferry service that's affordable, efficient and sustainable.
- To get there, we have to be open to all ideas that might generate additional revenue or reduce pressure on the system.
- Gaming was identified as a possibility for a new revenue source during our 2012 consultations.
- The BC Lottery Corporation has done analysis of the possibility, with input from BC Ferries and the Ministry of Finance.
- Government is looking at this analysis and the other considerations prior to making a decision on whether to proceed with the pilot.

If asked if government would entertain a greater split of revenue for BC Ferries:

- I can't say whether government would be interested in going that route. That's a broader discussion and the decision would not rest in my ministry.

BACKGROUND

- In February 2014, following consultation, government announced it is pursuing the feasibility a gaming pilot project on one of BC Ferries' major routes and revenues would be directed to reduce pressure on future fare increases.
- On December 3rd Global BC reported that BC Ferries CEO dismissed the possibility of gaming as the corporation could not find a business plan that makes it work.
- In a December 5th Vancouver Sun story, Corrigan said that gaming wouldn't work given the current BC Lottery Corporation revenue sharing model and that maybe government could alter that model to make gaming work.

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Gabriola Island Fixed Link Feasibility Study

Estimates Note

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- Feasibility study of a bridge between Gabriola Island and Vancouver Island.

ADVICE AND RECOMMENDED RESPONSE

- The feasibility study is consistent with government's vision to explore strategies to connect coastal communities in an affordable, efficient and sustainable manner, and to look for innovative ways to reduce the upward pressure on ferry fares.
- It is in response to a petition signed by a significant number of Gabriola Island residents.
- Independent consultants are currently conducting the analysis and the ministry will report out in summer 2015.

If pressed on opposition to a bridge:

- It's far too early to speculate about construction of a new bridge.
- This is simply a study to determine if a fixed link is feasible, and to look at a cost comparison between a fixed link and the existing ferry service.
- The consultant will not be assessing the level of public support for a bridge.

BACKGROUND

- CH2M Hill, one of the major engineering firms in the province, was awarded the \$250,000 contract. The company has experience delivering similar studies. The selection of CH2M Hill was through an RFP process that was open to all engineering firms.
- The study is an initial step in looking at the possibility of replacing the ferry service with a bridge. The study will examine potential locations for a fixed link, and undertake a cost comparison between a fixed link and the existing ferry service.
- Regardless of the cost, there are other critical issues like land use, First Nations interests, Islands Trust policies with respect to bridges, the level of public support for a bridge, as well as environmental, social and economic impacts that would need to be considered.

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Performance Terms 3 & 4 Summary

Estimates Note

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- Performance Term 3 (2012/13 – 2015/16) and 4 (2016/17 – 2019/20).

ADVICE AND RECOMMENDED RESPONSE

- The upcoming 3.9 percent price cap increase on April 1st was determined by the BC Ferries Commissioner back in 2012.
- In response to concerns around affordability, government announced a Vision for an affordable, efficient and sustainable coastal ferry system.
- To enact this vision, the Province undertook a broad set of initiatives including legislative changes to the Coastal Ferry Act, service reductions to generate \$8 million in annual net savings, an additional \$86.6 million in taxpayer funding, and changes to the seniors discounts with savings re-directed to reduce fare pressure for all users.
- BC Ferries was challenged to find \$54 million in efficiencies to 2016 and they are on track to exceed this target.
- BC Ferries is also being more innovative – a new cable ferry will come into service this summer, they are developing a new IT and reservation system, and are moving to LNG fuel propulsion.
- All of these efforts were intended to address concerns about fare affordability, and specifically to get fare increases roughly in line with inflation.
- The BC Ferry Commissioner has announced preliminary price caps of 1.9 percent in each of the four years of PT4 from 2016 to 2019.
- These increases are the lowest since the beginning of the new coastal ferry model in 2003/04 and demonstrate that good progress is being made getting fare increases in line with long term inflation.
- This progress is the result of hard work and tough decisions of both government and BC Ferries, as well as the sacrifices of those that live in coastal communities.
- Now that the Commissioner has announced his preliminary price cap decision, the Province and BC Ferries have until the end of June 2015 to make any changes to the service contract.
- Any changes will be taken into account by the Commissioner prior to a final decision on price cap increases by the end of September 2015.

BACKGROUND

- PT3: On September 30, 2012, the BC Ferry Commissioner announced the following final price cap increases for the last three years of PT3: 2013/14 - 4.1 percent, 2014/15 – 4.0 percent and 2015/16 – 3.9 percent.
- These are lower than the preliminary price cap announcement of 4.15 percent annually on majors and 8.23 percent annually on other routes.
- The commissioner would normally establish price cap increases for four years. Bill 14 set the price cap at 4.15 percent for the first year of the performance term (2012/13) which allowed the commissioner time to conduct his review of the Coastal Ferry Act and submit recommendations to the Province.

- After the Commissioner's report, the Province announced its vision and outlined strategies to achieve the vision including \$86.6 million in additional taxpayer funding:
 - 2011/12: \$25 million equity payment (NB. Payment in PT2, but impacted PT3).
 - 2012/13: total of \$21.5 million (including \$11.5 million for interim financial relief while Ferry Commissioner conducted his review, and \$10 million PT3 increase)
 - 2013/14: total of \$17.6 million (including \$10.5 million PT3 increase and \$7.1 million one-time payment for the delay of service adjustments)
 - 2014/15: \$11 million PT3 increase
 - 2015/16: \$11.5 million PT3 increase
- PT4: On March 18, 2015, the BC Ferry Commissioner announced a preliminary price cap decision of 1.9 percent for each year from 2016 – 2019.

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