

Submission to the Select Standing Committee on Finance and Government Services
Ferry Advisory Committee Chairs

October 2008

We are recommending that the upcoming budget allocate sufficient ongoing funding to rescue the coastal communities from increasingly unaffordable ferry fares, resulting from the government's nine-year freeze on the transportation fee at a time when operating costs have soared beyond all expectations.

Quote from: *Budget 2009 Consultation Paper*: "Investments in BC's infrastructure are producing new economic benefits, enhancing both travel and tourism. For instance, between 2008 and 2011, the Province is making transportation infrastructure investments of \$3 billion including roads, bridges, border crossing improvements, rapid transit, airports and port development."

There is something missing here. BC is a coastal province, yet there is no mention of the ferry system - the sole transportation infrastructure for many coastal communities. These communities rely upon ferry service to generate economic activity. Many have had to move away from resource-based economies and are relying increasingly upon tourism.

Far from supporting economic development, ferry service is proving to be an impediment. Fares on some coastal routes have increased by as much as 125% since 2003. These increases are far in excess of what is happening with other modes of transportation. Ten fare increases in five years have been followed by steadily declining traffic. This situation is not sustainable. Small businesses operating on small margins are already in trouble. Members of the work force in coastal communities are particularly vulnerable; incomes are generally well below the provincial mean.

Like the inland ferries, which continue to be provided free, coastal ferry service was established as an extension of the highway system. This is how residents continue to see their connection to the rest of the province. The provincial government, through the *Coastal Ferry Act*, has severed BC Ferries from direct government control over management of the system. However, the Province still has control over the cost of ferry service to BC residents through the transportation fee it provides to BC Ferries.

The *Act* requires that the major routes between the mainland and Vancouver Island be financially self-sufficient. The Province provides annual transportation fees to support service on the remaining routes: the routes serving north and mid coast communities, the Sunshine Coast and communities adjacent to Vancouver Island and in Howe Sound.

The government has significantly increased its contributions to ferry routes serving the north and mid coast communities, recognizing that ferry users cannot absorb significant capital and operating costs through fares without economic impacts to affected communities. We are asking that the Province give the same recognition to the "minor" routes serving south coast communities that are already in trouble. The provincial transportation fee is presently budgeted to stay at essentially the same level from 2003 to 2012 (unlike the federal contribution which is indexed to CPI). Meanwhile, BC Ferries is faced with galloping fuel increases and the heavy costs of renewing infrastructure that was badly neglected when the province managed the system. The "fare shock" already experienced has damaged local economies. Continuing increases could be devastating.

Accessible and affordable transportation is a key to economic activity for coastal communities as it is elsewhere. The budget should provide for the following:

- a) An immediate cash infusion into the minor routes of BC Ferries, including absorbing some or all of the unprecedented fuel cost increases, enabling a roll back in fares.
- b) Indexing of the Transportation Fees to CPI from 2003 with adjustments as required to address extraordinary cost increases, traffic declines and community hardship.
- c) Contributions to investment in capital assets.

Background

“Towards a Minor Routes Strategy for Coastal Ferry Service”

(Discussion Paper presented by FACC to the Minister of Transportation and Infrastructure)

Executive summary

The Ferry Advisory Committee Chairs are proposing that a strategy be immediately undertaken to sustain BC Ferries minor ferry routes and route three on a sound financial footing so that they can adequately serve coastal communities.

In 2003 the Coastal Ferry Act was introduced to ensure modest and predictable fare increases, to promote economic development and to support tourism growth while protecting taxpayers from financial risk. This framework has enabled the major routes to become financially self-reliant as they are no longer required to cross-subsidize the other routes. However, the initial provisions of the Coastal Ferry Services Contract, which specifies provincial support for the other routes, have proven to be inadequate to address unanticipated capital and operating costs. The Province and BC Ferries have undertaken a Northern Strategy which involves substantially increased provincial support for the northern routes.

A strategy is also needed for the routes south of Port Hardy which have been particularly hard hit by substantial fuel surcharges on top of significant annual fare increases. Fares have increased by as much as 120% in five years. This has resulted in a consistent drop in traffic and a loss of community and business confidence in the coastal transportation system. A costly capital program is required to address aging assets on these routes. Increasing fares can no longer be looked upon as the sole means of addressing costs, a conclusion that has been accepted with respect to the northern routes.

A strategic approach should include a number of elements. Traffic could be increased through increased promotion of tourism and marketing initiatives; this may be hard to achieve without competitive pricing. Costs could be reduced through innovations, increased productivity and service adjustments. A workshop is being planned to look at possible innovative approaches to ferry service. Productivity gains, while being pursued, are limited by regulatory requirements and contractual obligations. Exploring service adjustments needs to be done collaboratively with ferry users who are presently being stressed by the impact of ten fare increases in five years.

A key element in a successful strategy is the transportation fee provided by the province to support ferry service. This fee is scheduled to be virtually unchanged from 2003 to 2012 while the federal government's smaller contribution is indexed to inflation. Adjustments to the fee would provide a foundation for increasing traffic through marketing efforts and would enable the Ferry Advisory Committees to credibly engage their communities in exploring service changes. Adjustments could take the form of an immediate cash infusion to take the bite out of recent severe fare increases, indexing the transportation fee to the consumer price index and providing additional support as required to address capital investment and extraordinary circumstances.

This strategy could restore community and business confidence in the coastal transportation system and would help ensure that the goals of the *Coastal Ferry Act* to promote economic development and support tourism growth through stable ferry rates are accomplished.

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The Ferry Advisory Committee Chairs (FACC) chair the twelve Ferry Advisory Committees established by BC Ferries for the routes serving coastal communities from Haida Gwaii in the north to the Gulf Islands in the south. These chairs (or their delegates) also meet regularly with BC Ferries senior management and the BC Ferry Commission and are members of the Coastal Community Ferry Advisory Committee established by the Ministry of Transportation and Infrastructure.

[Contact: Tony Law Box 13, Hornby Island, BC V0R 1Z0 (250) 335-1155 cccc@telus.net]