British Columbia Ferry Corporation

and

Fiscal Fairness for Ferry-Dependent Communities

Executive Summary

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Report prepared and owned by
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MARADADI PACIFIC

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Introduction

The BC Ferry Service Inc (BC Ferries) as it is currently constituted violates the British Columbia government's fiduciary obligation to 20% of British Columbians who live in ferry-dependent coastal communities. The foundation of this fiduciary obligation rests within the long-established principle of fiscal fairness. This principle has its roots in the practice of government-sanctioned monopoly services provided by both federal and provincial governments since joining confederation. The principle received further authority with the establishment of the Canadian Constitution and the Charter of Rights and Freedoms. Further, the level of funding provided BC Ferries violates the government's obligation to the equitable distribution of revenue from taxes collected for the provision of regional economic growth.

Background

The British Columbia Ferry Corporation (BCFC) was created as a government-sanctioned tolled highway service. This was established as part of the government's commitment to the regional economic growth of all regions of the province. The ferry service has been considered "essential" to the economic well being of residents in Ferry-Dependent Coastal Communities (FDCC) throughout its history.

In order to maintain and protect this service, the BC government created the BC Ferry Corporation as a government-sanctioned monopoly to operate as a tolled extension of the British Columbia highway network connecting FDCC.

The original financing of this service was obtained through the BC Toll Bridges and Highways Authority in the same manner that other major capital highways projects were built during the same period. The Ministry of Transportation and Infrastructure (MoTI) has played a prominent part over the years, in its various forms, in the administration of BC Ferries as a functional part of British Columbia's transportation system. Currently, MoTI is responsible for the management of the Coastal Ferries Services Contract between BC Ferries and the Government of British Columbia.

This lack of commitment to the provision of affordable and transportation services within FDCC has created growing hardship for the citizens who live in these communities, and has proven to be a serious impediment to economic growth.

This paper will demonstrate that the April 1st, 2013 fare hike that has been approved by the BC Ferry Commissioner is unwarranted given that it comes at a time when the provincial government has committed hundreds of millions of dollars as BC's contribution to Canada's multi-billion dollar Pacific Gateway Transportation Project for major road, rail and port development.

Fiscal Fairness

Fiscal Fairness is the practice of government that ensures that all taxpaying citizens are treated in an equitable manner, where services are provided through government-supplied programs, or government-sanctioned monopolies including Crown Corporations. In a decentralized country like Canada, a strong fiscal transfer program is critical to ensure that all Canadians in all parts of the country have reasonably comparable levels of public services at reasonably comparable levels of cost.

The principle of fiscal fairness and regional equality has a long history in Canada, and today extends from the federal government to all other levels of government by virtue of the government's authority to collect taxes, and the subsequent spending powers as provided for within the Canadian Constitution Act of 1982 and the Charter of Rights and Freedoms.

> *"Parliament and the government of Canada are committed to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation." (Subsection 36(2) of the Constitution Act, 1982")*

Canada Health Transfer, Equalization, and the Canada Social Transfer constitute 93.8% of fiscal cash transfers to the provinces from the federal government. These fiduciary requirements of the federal crown underline the commitment to fiscal fairness in the delivery of health services, transfer payments for the purpose of regional equality, and an equal opportunity for every Canadian to access basic social services.

The establishment of universal programs such as national health care recognizes the need for government subsidy so that Canadians have equal access to services. This is outlined within Section 3 of the Canada Health Act 1982:

> *"It is hereby declared that the primary objective of Canadian health care policy is to protect, promote and restore the physical and mental well-being of residents of Canada and to facilitate reasonable access to health services without financial or other barriers."*

It is accepted that these standards, when implemented, will impose obligatory spending by the provinces where "cost sharing agreements" are in place.

The commitment to equalization payments was introduced following the depression of the 1930s to correct fiscal imbalance between the provinces. Over the years, the method of determining the federal transfer of dollars to the provinces has changed, but in every change, *the principle of fiscal fairness was maintained.*

Provincial equalization payments are now calculated using a ten-province standard based on five tax bases: personal income tax, business income tax, and consumption tax, property tax, and natural resource revenues. To further ensure fiscal fairness, a capacity cap ensures that equalization payments will not raise a province's total fiscal capacity above that of the lowest non-receiving province.

Our national commitment to the principle that every Canadian is equal to every other Canadian, as enshrined in the Charter of Rights and Freedoms, regardless of where in this country she or he lives, has been an underpinning of many rounds of discussions and agreements between prime ministers and premiers of all stripes, as well as within the lower ranks of government at both the federal and provincial level.

Crown Corporations: Equitable Service and Fiscal Fairness

Governments, both federal and provincial, have used Crown Corporations for the provision of government financed services at comparable levels across this country and they have become a cornerstone of Canadian democracy. Crown corporations are often granted *virtual monopoly status* by government, although in recent years there has been greater cooperation with private sector partners.

The use of Crown Corporations has been most common in sectors such as transportation, telecommunications, utilities and power generation, but they extend into many parts of the economy, including alcohol sales, gaming, finance, business development, insurance, agriculture and culture.

The reason that successive governments, both federal and provincial, have honoured this convention is because of their commitment to fiscal fairness in the governing of Canada; the size and nature of Canada's physical geography, the disparate resource wealth and potential wealth of the provinces, along with a widely dispersed and diverse multicultural population has required it.

Canada Post

Canada Post has historically benefited from an exclusive privilege on the collection, transmission and delivery of letters. It provides an example at the national level of the practice of fiscal fairness and regional equality. The ***Canada Post Corporation*** *Act* requires the Corporation to provide "*universal postal service*" by establishing a "*postal stamp price*" that is fair and reasonable, while being sufficient to defray the costs incurred in the conduct of its operations.

Canada Post delivers mail on every week day to all Canadians at the same *postage stamp price* regardless of where in the country they live.

Crown Corporations in British Columbia

BC Hydro

BC Hydro, one of the largest Crown Corporations in British Columbia, employs approximately 6,144 people, supplies power to approximately 94 per cent of the province's population, and owns 80 per cent of the province's electricity generation and distribution system. This allows BC Hydro to fulfill its primary purpose, which is to ensure that all British Columbians have a stable source of electricity at a regulated price regardless of where they live. This shows fiscal fairness.

In October 2008, BC Hydro made application for the removal of the flat rate, and introduced the Residential Inclining Block (RIB) rate which is a two-stepped conservation rate structure that provides incentive for conservation purposes, while it holds to the principle of fiscal fairness by establishing the same base rate for all British Columbians regardless of where they live. This application was approved by the British Columbia Utilities Commission (BCUC).

Despite some opinion that RIB rate opens the door for unfair electrical rate increases, the *principle* of fiscal fairness remains, as the base rate has not changed and any additional rate is primarily based on increased consumption. All residential customers will pay the same base rate up to 1600 kWh per two-month billing cycle. People who live in Ferry-Dependant Coastal Communities where delivery costs are higher are not required to pay more for electricity than the base rate charged to a consumer in the Fraser Valley or Prince George. The new conservation rate structure is revenue neutral and has been implemented to encourage conservation, not generate more revenue for BC Hydro through the two-step conservation rate.

The conservation rate applies equally to all residential and industrial customers regardless of where they live/operate, the kind of house/building they reside in, and how they use electricity. (Source: 2012 Energy Conservation Rates, Ministry of Energy, Mines and Natural Gas and Responsible for Housing)

The Liquor Distribution Branch (LDB)

The Liquor Distribution Branch is another example of a government Crown Corporation which has virtual monopoly status through the management of a centralized liquor distribution system. The LDB meets the test of fiscal fairness by providing for equal pricing of liquor products throughout the province through government-owned liquor stores that ensure an equal opportunity to access the same product selections at standard prices through a central catalogue.

The LDB employs approximately 3,500 British Columbians and regulates the distribution, importation, and retailing of alcoholic beverages under the Liquor Distribution Act. The LDB operates approximately 224 liquor stores throughout British Columbia.

The LDB also oversees the operating agreements of special beverage alcohol retailing programs such as private beer and wine outlets. The LDB's centralized distribution system is responsible for distributing product not only to LDB retail outlets, but also to cold beer and wine stores that are privately-owned, and to licensed establishments throughout BC.

British Columbians who live on Salt Spring Island, Thetis Island, or Powell River are not expected to pay a different shelf price from a consumer who lives in Chilliwack, Prince George, downtown Vancouver, or any other place in British Columbia. The same shelf price for product carried within the catalogue is charged throughout British Columbia.

The British Columbia Transportation and Finance Authority (BCFTA)

The BCTFA is a Crown Corporation established in 1993 under the Build BC Act, and had its origins in the BC Toll Highways and Bridges Authority. In December of 2004 the Build BC Act was repealed and replaced by the Transportation Act which became the legislative authority under the jurisdiction of the Minister of Transportation and Infrastructure.

As a Crown Corporation, the BCTFA is mandated to “acquire, construct, hold and improve transportation infrastructure… (It) is obliged to take full responsibility for providing services to the general public by holding and improving the infrastructure over their useful lives” (Source: Consolidated Financial Statements, Transportation Financing Authority, March 31, 2012)

The BCTFA has sole authority for development, management and administration of highways under the Highways Act. The BCTFA has no direct employees, with staffing services provided by the Ministry of Transportation and Infrastructure. The BCTFA Crown Corporation owns all provincial highways, owns land held for construction of future transportation infrastructure, and related administration.

The Minister of Transportation and Infrastructure is responsible for the BCTFA and as the sole member of the Board of Directors is also mandated under the Highways Act to work with partners and other levels of government to provide funding to develop and deliver cost-effective public transit, ferry services and cycling networks. In addition, the ministry is required to “open up B.C. through innovative, forward-thinking transportation strategies that move people and goods safely, and fuel our provincial economy.” (Source: Ministry of Transportation and Infrastructure 2013/14 Service Plan)

In that regard, government fails to meet the test of fiscal fairness because it falls short of its mandate with respect to one in five, or 20% of, British Columbians who live in ferry-dependent coastal communities and who do not benefit from the same level of government investment in the “tolled portion” of highway which is serviced under the Ferry Services Act.

It is important to note that the role of the BC Transport Finance Authority was expanded when it took under its control the **British Columbia Railway Company** incorporated under the *BC Railway Act* April 2010. BCRC’s stated mandate is to support the Pacific Gateway Transportation Strategy 2012-2020, (PGTS 2012-20) a $26 billion dollar commitment from the province of BC, along with partnership with the federal government and private partners.

This mandate is to be fulfilled by acquiring and holding railway corridors, strategic port lands, and infrastructure investments, for the benefit of British Columbia. The BCRC, which owns the railway lands and track infrastructure formerly owned by BC Rail, is now a wholly-owned subsidiary of the BC Transportation Financing Authority. Further lands surplus to railway or port needs are held by BCR Properties Ltd and are mandated to be sold under the direction of staff in the Ministry of Transportation and Infrastructure.

The reason that the above information is relevant to this report is because despite the mandate of the PGTS 2012 – 2020, the public coastal ferry transportation of BC Ferries plays *no* part in the Pacific Gateway Transportation Strategy. This is despite the fact that the region serviced by BC Ferries has pulp and paper production, lumber and wood-related production, mining and other significant economic activities that are directly related to the mandate of the PGTS 2012 - 2020 initiative. This further speaks to the lack of fiscal fairness for British Columbians in FDCCs.

BC Transportation and Finance Authority and Inland "Freshwater" Ferries

The BCTFA, in cooperation with the MoTI, continues to fund and administer contracts for fourteen ferry routes in the interior of British Columbia which run *free* to the user as part of their obligation to highway funding. These inland "freshwater ferries" are administered through the Marine Branch of MoTI, which also holds responsibility for the administration of the Coastal Ferries Services Contract which provides authority to BC Ferries to operate.

The operational imperative for the inland ferries is the same as that of the coastal ferries, with the exception of the ticket prices charged for coastal ferries. The 2013 MoTI services plan describes the interior ferries as:

> *"…an integral link in British Columbia's transportation network". Ministry 2013 Service Plan*

The latest version of the Coastal Ferries Services Contract describes the coastal marine service as:

> *"integral to economic growth and development in British Columbia, and getting people and goods to their destinations…" Coastal Ferries Services Contract (Consolidated version) March 31, 2008*

The interior routes include six vessels, five reaction ferries, two aerial tramways (winter use), five cable ferries, plus tugboats and barges, all of which provide services to the customer at no charge. The fleet carries more than 2.4 million passengers and more than 1.5 million vehicles annually without charge to the user at an annual operating cost of $20.8 million and (Ministry of Finance – Budget Estimates - 2013)

Companies such as Western Pacific Marine Ltd. and WaterBridge Ferries Inc currently contract with the Ministry of Transportation and Infrastructure to provide a variety of services over the Fraser River, the Upper and Lower Arrow Lakes, Kootenay Lake, Adams Lake, and Francois Lake to name only a few. While these services vary in vessel type, and style, they all have one thing in common, namely that they are FREE to the user.

Some examples of such service are:

<u>The Barnston Island/Port Kells Ferry:</u> On the Fraser River at bottom of 104th St., Surrey;

<u>Shelter Bay to Galena Bay:</u> Crossing point is 49 km south of Revelstoke on Highway 23 serviced by two vessels, MV Galena and MV Shelter Bay. The MV Galena with a 30 car and 144 passenger capacity (new vessel under construction) provides year-round free ferry service for the 20 minute crossing, 20 hours a day, 5:00am to 12:00am every day.

MV Galena

The second vessel "Shelter Bay" provides additional service during summer months.

MV Shelter Bay

Needles: Crosses Lower Arrow Lake, 59 km south of Nakusp on Highway 6 providing year-round ferry service, 24 hours a day, every day.

Arrow Park: Crosses Arrow Lakes 22km south of Nakusp on Highway 6 at Arrow Park between the hours of 5:10 am to 9:20.

Adams Lake Ferry: Provides 24 hr service (emergency only between the hours of 3:00 am and 5:00 am) across Adams Lake 20 km north of Highway 1 between Chase and Sorrento.

Kootenay Lake Ferry: Two vessels provide service across Kootenay Lake 35 kilometres east of Nelson on Highway 3A, between Balfour (west side) and Kootenay Bay (east side). The daily schedule is provided by the M.V. Osprey 2000 (pictured below) which sails from Balfour, 6:30 a.m. – 9:40 p.m. and from Kootenay Bay, 7:10 a.m. – 10:20 p.m. In the summer months the MV Osprey 2000 is supplemented by the vessel MV Balfour providing additional daytime sailings between 10.40 am and 6:10 pm. All are free to the user.

MV Balfour

Francois Lake: Crosses Francois Lake on Highway 35 about 26 kilometres south of Burns Lake, from the community of Francois Lake over to Southbank. The carrying capacity is 52 vehicles and 145 passengers with year round service from 5:30 am to 11:00 pm daily. The service is free.

MV Francois Forester

A Capital Cost Comparison

Since 1998, successive governments, both NDP and Liberal, have committed to capital expenditures for the construction of new inland ferries, primarily to service the Upper and Lower Arrow Lakes.

In the year 2000, the MV Osprey was completed at a reported cost of $24.6 million. The Osprey, designed and built in the interior of British Columbia, is similar in design to the Century Class vessels that were designed and constructed in Vancouver for the BC Ferry Corporation.

In further understanding the matter of the lack of fiscal fairness it is worth noting the following comparison between the MV Osprey 2000 which, as we have noted above is part of the free interior ferry service financed by the MoTI and the MV Skeena Queen, built in the mid-1990s as a new Century Class of vessels designed and paid for by BC Ferries to provide service to the shorter island routes.

MV Osprey 2000 – Kootenay Bay Ferry

Year built – 1999/2000

Cost of Construction - $24.6 Million

Vessel capacity – 80 Cars – 250 passengers

Vessel operating speed – 15 knots

Crew of 5 persons

Passenger accommodation is provided on either side of wheelhouse, on center span over car deck.

Catering services are provided on board

Travel time to destination – 35 minutes

Cost of Car + driver = Free

Passenger Cost = Free

MV – Skeena Queen – Fulford/Salt Spring Island

Year built 1996

Cost of Construction $21 million*

Vessel Capacity – 100 Cars – 600 passengers

Vessel operating Speed – 18knots (reduced)

Crew of 7 persons

Limited passenger accommodation is on either side of wheelhouse, on centre span over car deck.

No catering, only vending machines available

Travel time to destination – 35 minutes

Cost of Car +driver = $43.15 + applicable tax

Passenger Cost = Adult $10.90, Child (5 – 11) $5.45

*It should be noted that there was considerable interference from BC Ferries with the selection of the engines put into the Skeena Queen. The selection of Mitsubishi high speed diesel engines was done at the insistence of BC Ferries and against the advice of McLaren and Sons, the designer, and Allied Shipyards of Vancouver, the builder. The result was an additional cost of $2.5 million for the four engine replacements, along with the operational costs incurred due to vessel replacement during extensive dry dock and service interruptions. In 2002 the high speed engines were finally replaced and medium speed engines installed resulting in a more troubled free performance. By contrast the MV Osprey commissioned by Ministry of Transportation and Infrastructure and financed through the BCTFA where the design was approved through a standard government procurement process and the designer and builder left to provide the vessel as per the approved specifications, the vessel has operated relatively trouble free.

In June 13, 2012 the B.C. Government announced the awarding of a $26.5-million contract to WaterBridge Steel Inc. of Prince George to build a new ferry for the 30 minute crossing between Shelter Bay and Galena Bay in the Upper Arrow lakes.

The new vessel will be a drive-on, drive-off, open-decked ferry capable of transporting 80 cars and 250 passengers, and will be constructed in the Community of Nakusp creating 65 local jobs. When it goes into service it will be free to local residents, businesses and tourists alike.

Review of the British Columbia Ferry Corporation

The British Columbia Ferry Corporation was established in 1958 through the Toll Highways and Bridges Authority (BCTHBA) which was a government Crown Corporation to provide public ownership of transportation routes previously serviced by the Canadian Pacific Railway and private carrier Blackball Ferries.

The government of Premier W.A.C. Bennett established the service in part as a response to labour unrest that led to job action. He declared that a reliable and affordable connection between Vancouver and Victoria constituted an essential service because British Columbians have a right to uninterrupted and affordable transportation services to their communities. Premier WAC Bennett, a successful man of business, knew that if the provincial economy was to grow that the communities of British Columbia needed to be connected by road, and in the case of coastal communities by ferries which like bridges and tunnels extended the highway by overcoming natural barriers to the movement of goods, services and people.

BC Ferries was one of three capital acquisitions undertaken by Premier WAC Bennett through the Toll Highways and Bridges Authority.

1. The purchase of the Lions Gate Bridge in 1955 for $5.6 million;
2. The construction of the Deas Island Tunnel, (now Massey Tunnel) in 1956 for $26 million; and,
3. The building of the first two BC Ferries, MV Queen of Tsawwassen and MV Queen of Sydney 1959 -1960 along with terminal infrastructure for a total of $12.2 million.

These three assets all carried a toll (fare in the case of BC Ferries) and were wholly owned by the BCTHBA as part of the Bennett's commitment to a province-wide highway system in order to facilitate the economic growth of British Columbia communities. Tolls on the Deas Island Tunnel and the Lions Gate Bridge were removed in 1963; Fares on BC Ferries continue to rise.

Other notable highway projects that were undertaken by the BCTHBA as part of the province-wide strategy for highway development by the Bennett government included the Hart highway in the North-East, the Hope-Princeton Highway opening up the connection to the South Okanagan, the Yale tunnel within the difficult Fraser Canyon, the Richter Pass along the Salmo-Creston Highway, and the Christina Lake to Castlegar Highway.

There is no charge for the use of any of the roads in British Columbia. *Highways are free to all British Columbia users,* with the exception of tolls recently approved on the Golden Ears Bridge and the newly-constructed Port Mann Bridge.

In 1961, the BCTHBA took the decision to expand the ferry service and purchased the Blackball Ferry Company for $6.6 million dollars integrating it as a part of the BC Ferry Service in order to expand government-funded marine transportation service from the original Tsawwassen to Swartz Bay route to include service Horseshoe Bay to Gibsons (Langdale) and to Nanaimo.

On January 1, 1977 BC Ferries was formed as a government-sanctioned monopoly Crown Corporation to operate the coastal ferry service that was initiated by the Province in 1960. The mandate of the original contract with BC Ferries reads:

> *The coastal ferry system is integral to economic growth and development in British Columbia, and getting people and goods to their destinations safely, efficiently and on time is essential if British Columbia is to be competitive in the world economy in which it operates.*
>
> And
>
> *BC Ferries is an integral part of British Columbia's coastal ferry system, linking Vancouver Island to the mainland of British Columbia and linking many other coastal communities.*

In the mid-1980s BC Ferries took over the saltwater branch of the Ministry of Transportation and Highways which ran K-class ferries to service small coastal island communities. As previously mentioned, privately contracted services administered by the Marine Branch of the Ministry of Highways and Infrastructure provide additional services across the Fraser River, and in the interior of the province.

Today's Major Southern Routes for BC Ferry Corporation

The 1990s was a volatile decade for BC Ferries as the NDP government, under the leadership of four premiers in ten years, engaged in the “political” management of the corporation. Most notable of controversies was the decision to construct three high speed aluminum catamarans to service the Horseshoe Bay to Departure Bay route. While the decision to use local designers and local labour provided a major injection to British Columbia’s flagging ship building industry, the requirement for upper and lower bow ramps to “fit” the existing docks was not part of the original high speed design, and the additional weight added to the bow to refit the ships proved costly in terms of the fuel required to lift the catamaran “on step”, and the wake from the additional speed caused damage to nearby floats and moorages.

The project went well over budget and added almost a billion dollars to the debt of the corporation, leaving few financial resources to undertake the capital expenditures necessary for the company to keep pace with the requirements of an aging fleet.

As BC Ferries became more politicized, less attention was paid to the overall needs of the people dependent on ferries as an extension of their highways. In 1999, several actions were taken to address what had become a fiscal crisis for the ferry system. First, the Board of Directors was removed and a new board made up of individuals with a background in marine business were appointed. Next, in order to put the crown corporation on a sound financial foundation, $1.096 billion of the corporation’s debt was purchased by the government and funds were transferred to cover the deficit. In addition, legislation was passed dedicating 1.25 cents of the motor fuel tax to subsidize ferry service. Also, the federal government was forced to finally pay its contribution to the BC Ferry Corporation as part of its fiduciary responsibility for fiscal fairness in the financing of Highway 1, the TransCanada Highway, which travels by BC Ferry Corporation between Horseshoe Bay and Departure Bay, Nanaimo.

By the year 2000, the BC Ferry Corporation was back on sound financial footing, and moves were being made to integrate it into the financing model of the BCTFA. Late in 2000, a change of minister brought a change in approach: the three controversial new catamarans were put up for sale, and the BC Ferry Corporation was pushed to the back of the government priority list.

By 2001, BC Ferries was one of the largest ferry operators in the world, with more than 4,500 employees and providing year-round vehicle and passenger service on 25 routes to 47 terminals. The fleet of 35 vessels provided an essential transportation link that connected coastal communities in a wide and varied coastal economy that generated, on an annualized basis through industrial, commercial and residential fees, tariffs and taxes roughly 36% of the total annual revenue to the crown. BC Ferries represented a toll bridge linking communities together and facilitating the movement of people, goods and services.

In 2001, a change in government brought another change in approach to the BC Ferry Corporation, and in April 2003, BC Ferries was transformed from a Crown corporation into an independent, commercial organization under the Company Act. Although no longer a crown corporation, BC Ferry Corporation remained a company with a single shareholder, which was the government of BC. Under the 2003 structure, BC Ferry Corporation was governed by an independent Board of Directors appointed by the B.C. Ferry Authority. The B.C. Ferry Authority (Authority) was an independent, no-share capital corporation created under Coastal Ferry Act (British Columbia) that held the single voting share issued by British Columbia Ferry Services Inc. (BC Ferries), a company incorporated in British Columbia, which was subject to the Business Corporations Act (British Columbia). The provincial government was the holder of all of the preferred shares of BC Ferries. The Authority appointed the Board of Directors of BC Ferries, and both the Authority and BC Ferries operated independent of the provincial government.

This structure has in large measure caused the operational difficulties of the BC Ferries for the following reason: the government used to own the controlling interest in BC Ferries, which had a book value of $503,178,000. On April 2, 2003, the government issued BC Ferries a debenture for $427,701,000, which BC Ferries promised to pay in cash. The government was issued 75,477 non-voting preferred shares in BC Ferries valued at $1000 per share.

On May 27, 2004, BC Ferries paid the debenture of $427,701,000 to the government. BC Ferries also paid the government $25,879,191.49, which was an interest payment on the debenture. In addition, BC Ferries pays an 8% dividend per year of $6,038,160 to the government on its preferred shares, a dividend paid annually for six years for a payment total of $36,228,960.

In summary, since 2003, rather than the residents of ferry dependent communities receiving the benefit of government expenditure for their “marine highway” and unlike those who receive an annual benefit from expenditures on the construction of bridges, tunnels and highways financed by the BCHFA, and further enjoy the benefit of the annual highways operating capital, BC Ferries has instead be forced under this arrangement to pay money back to the government and recover those funds ferry users. To date, BC Ferries has paid the province $489,809,000, almost half a billion dollars. This further confirms the government’s failure to abide by ‘fiscal fairness’ in the application of tax dollars for transportation.

The Financial Picture

The region serviced by BC Ferries includes 51 Municipalities and Regional Districts including all of Vancouver Island, the Gulf Islands, Texada Island, Powell River, the Sunshine Coast, and many island communities within the Mount Waddington Region, as well as communities on the central coast, Prince Rupert, and Haida Gwaii. The population of British Columbians who live in this region constitute 19.7% (20%) of the British Columbia population (BC Stats).

For the purpose of this report, White Rock, (Surrey), Delta, Richmond, and the Greater Vancouver Regional District including West Vancouver and Lions Bay are not included in the 20%, even though it can be argued that given the location of ferry terminals and the base population of ferry workers, along with residents who frequently use the service, those communities both contribute to and benefit from the BC Ferries.

The population of British Columbia has grown by 1% province-wide over the last six years, with West Vancouver (2.3%), Vancouver (1.4%), and most Fraser Valley communities leading the way. With the exception of Bowen Island, communities dependent on BC Ferries have experienced much slower growth, and in some island communities, have declined. Victoria has experienced a 0.3% growth, slightly behind the Capital Regional District which posted a 0.4% growth over the last six years, as contrasted with lower mainland communities such as Surrey (1.9%), Langley District Municipality (1.4%) and Coquitlam at (1.4%).

These population figures are relevant when considered in light of future population densities and the increasing demand for transportation and infrastructure services in the lower mainland, where populations continue to concentrate. In their book "The Geography of Transport Systems" (2006), Jean-Paul Rodrigue, Associate Professor of Geography, Hofstra University, Claude Comtois, Professor of Geography, University of Montreal, and Brian Slack, Professor of Geography at Concordia University, discuss transport impediments that restrict free movement of people into areas that would otherwise experience growth.

When these principles are applied to the BC Ferry service to coastal communities in terms of amenities for potential commuters, it is clear that limited schedules and increasing ferry costs are a significant impediment to growth in those communities. Bowen Island and Gibsons/Sechelt are unique amongst communities serviced by BC Ferries in that they experienced population growth of 1.6% and 1.8% respectively in the last six years and provide a quality lifestyle for people who can commute to work in Vancouver. Even in these communities, rising ferry fares plus and the 4.1% to take effect on April 1st, 2013, seem to be having an effect, as in the last two years population numbers seem to be levelling off.

Rodgrique et al challenge the myth that distance is time. Given the densities that currently exist within the "bedroom" communities that feed into Vancouver, even short distances can take a long time to travel when in a traffic gridlock during rush hour. It is quite conceivable that if BC Ferries implemented a more frequent and affordable passenger service, ridership rates which are currently in decline would reverse, and not only would those communities that rely upon ferries experience desirable economic growth, but general population shifts may take place that will assist with regional infrastructure planning and costs currently carried by a handful of lower mainland communities.

However, the current policy outlined by BC Ferries takes the Corporation in a different direction. Over the last twenty five years, ferry fares have risen for people who live within some serviced communities by as much as 514%. In addition to increased fares, the service levels on many routes have declined. And this is happening when the BC government is spending a record amount of money on bridges, tunnels, roads, ports and land for highway right of ways.

Increased Fares of Selected Routes

Route (selective)	1987	1992	1997	2002	2007	2012	%incr.
Tsawwassen/Swartz Bay	$ 19.50	$ 25.50	$ 38.00	$ 43.00	$ 55.15	$ 65.30	335%
Horseshoe Bay/Langdale	$ 20.50	$ 25.50	$ 32.75	$ 35.75	$ 35.75	$ 49.25	240%
Port Hardy/Prince Rupert	$ 174.00	$ 260.00	$ 312.00	$ 332.00	$ 441.30	$ 614.00	353%
Saltery Bay/Earls Cove	$ 20.50	$ 25.50	$ 32.75	$ 32.75	$ 49.25	$ 60.75	296%
Horseshoe Bay/Bowen Island	$ 12.50	$ 15.50	$ 21.00	$ 24.00	$ 34.15	$ 41.85	335%
Comox/Powell River	$ 20.50	$ 25.50	$ 31.00	$ 32.50	$ 47.50	$ 57.95	283%
Powell River/Texada Island	$ 7.80	$ 10.50	$ 14.75	$ 18.75	$ 27.65	$ 34.05	437%
Nanaimo Harbour/Gabriola Island	$ 7.80	$ 10.50	$ 14.75	$ 18.75	$ 27.65	$ 34.05	437%
Tsawwassen to Gulf Islands	$ 16.00	$ 22.75	$ 43.00	$ 44.50	$ 62.85	$ 82.25	514%
Skidegate/Alliford Bay	$ 6.30	$ 8.75	$ 13.00	$ 16.75	$ 25.05	$ 30.95	491%

Note: the communities that are yellow highlighted, with the exception of Texada Island, are located on the BC mainland and not islands of the mainland coast.

Measuring the direct impact of these rate increases on local business and communities is a bit like proving that smoking is a direct cause of an individual's lung cancer. All evidence suggests a correlation between costs and declining economics, but it is hard to put definitive numbers forward. There is ample anecdotal information from as far ranging an economic group as commercial food transporters, tour bus drives, and B&B owners, however the most compelling statistical evidence comes from the BC Ferry Corporation themselves with record high tariffs and declining vehicle per run numbers.

Here is the chart showing the January 2013 Vehicle reductions Year to Date for selected routes with comparative numbers:

Route (selective)	YTD Curr Year	YTD Prev Year	% to Prev YTD
Tsawwassen/Swartz Bay	771,962	780,889	-1.14%
Horseshoe Bay/Langdale	467,878	474,045	-1.30%
Port Hardy/Prince Rupert	4,454	4,682	-4.87%
Saltery Bay/Earls Cove	74,128	15,504	-1.82%
Horseshoe Bay/Bowen Island	197,769	204,440	-3.26%
Comox/Powell River	63,078	66,449	-5.07%
Powell River/Texada Island	36,037	35,181	2.43%
Nanaimo Harbour/Gabriola Island	148,654	148,590	0.04%
Tsawwassen to Gulf Islands	13,447	13,790	-2.49%
Skidegate/Alliford Bay	17,892	18,357	-2.53%

Note: The February numbers show a similar trend.

The December 2012 report from the Ferry Advisory Chairs states the following on the impact of increased fares on economic development and job creation:

> *"This is a significant failure. The reality in our communities is the exact opposite of this intended goal. Ferry fares are a significant barrier to economic development and job creation; they have triggered collapsing tourism, economic shrinkage and job losses. Examples abound."*

Statistics verified by the BC Tourism Hotel tax database maintained by the Consumer Taxation Branch of the Ministry of Small Business and Revenue seems to quite clearly confirm that during the period of highest fare increases 2009/10 the highest drop in hotel visits occurred in hospitality (hotel) businesses located within ferry dependent communities.

These statistics further point to the lack of fiscal fairness in the application of tax dollars toward the construction, expansion and maintenance of British Columbia's transportation system. This despite the fact that such a commitment is mandated within the terms of reference for the Ministry of Transportation and Infrastructure.

In the fall of 2012, the BC government, faced with BC Ferries projection of a $20 million dollar shortfall, commissioned a report from Kirk and Co. to provide some guidelines and recommendations on next steps. The report titled, *Consultation and Engagement Summary Report,* was released in February 2013 and noted within the Executive Summary that:

> *Despite being comparable in efficiency with the world's best services, rising costs and declining ridership have created a financial challenge for the corporation. BC Ferries lost more than $16 million in the fiscal year ending March 31, 2012. The independent BC Ferry Commissioner noted in his January 2012 report that, without changes, increasing costs and the ongoing need to replace aging vessels could drive funding shortfalls to $56 million a year within the next five years. These shortfalls would have to be recovered through one or more of the following mechanisms: operating efficiencies, additional fare increases, service adjustments (mostly reductions), increased contributions from taxpayers or other forms of contributions from coastal communities.*

It is worth noting that the mandate provided the author of this report did not include a review of the company itself, neither is there any mention of the debentures currently held by BC Ferries and reported within the notes to the BC Ferries Consolidated Financial Statements for the years ended March 31,2012 and 2011

The paper reports that a total of 4,518 participant interactions during the fall of 2012, with 2,056 people attending 41 consultation events that consisted of both small group meetings, open houses and webinars. In addition, the research team received 1,259 feedback forms in both hard-copy form and online, along with 703 written submissions and 500 people randomly selected to participate in an online public opinion poll. It is not clear that these numbers represent single attendees or whether or not there were multiple submissions via the various approaches made available.

The full report along with a summary of responses may be found at:

http://www.coastalferriesengagement.ca/documents/report/BC_Coastal_Ferries_Consultation_and_Engagement_Summary_Report_20130301.pdf

It will not be surprising to readers to learn that while the matter of reduction of low capcity runs was split for and against, there is virtually no appetite for increase in fairs and even less for increase in local taxes or the tax on fuel to provide additional revenue. One can only surmise that those opposed to increasing their taxation would have been much higher if the respondents had been provided a clearer picture of the overall debt situation of the company. What is clear is that those attending and participating on-line were not provided financial statements that outlined the company debt. By asking ferry users to solve a $20 million shortfall by the methods proposed was a bit like being asked to bandage a severed artery.

The time has come for the Government of British Columbia to realize that BC Ferries must be treated in all respects as part of the highway system and as such become a subsidiary to the British Columbia Highway Finance Authority so that it can be financed at a rate that is comparable to that of the highways in the rest of the province.

A review of the debt currently held by BRITISH COLUMBIA FERRY SERVICES INC., as provided in the Notes to Consolidated Financial Statements for Years ended March 31, 2012 and 2011, shows that the corporation currently carries a debt obligation of $1.3 billion dollars with repayments due in the next five fiscal years, excluding debt carrying costs of interest payments and dividends, amounting to $466 million, with an additional commitment of $828 million and associated debt carrying costs through to the year 2021.

The debt payment schedule is reported in the following manner:

Year	*2013*	*2014*	*2015*	*2016*	*2017*	*2020-2038*
	$ 9millon	*$149million*	*$270million*	*$ 24million*	*$ 24million*	*$828million*

British Columbia Ferry Services Inc. has used a variety of financial instruments in its bid to borrow capital for the construction of new vessels, building and replacing of terminals, along with other capital needs. At a time when we are experiencing record low rates of borrowing, the corporation is still saddled with accruing liabilities at interest rates that vary from a floating low of 1.47% to a high of 6.21% (an effective interest rate 6.33%) in Senior Secured Bonds, Series 08-2, due December 2013 of $140 million.

In every respect, the BC Ferry mandate overlaps the mandate of the Ministry of Highways and Infrastructure, yet citizens are not required to make comparable contributions for the delivery of any other government-mandated essential service, least of all to pay for the cost of their highways in any way other than through the payment of their taxes.

By any measure, the amount of money borrowed and spent on behalf of the people of this province for the provision of transportation systems is disproportionate to that of the tariffs charged to users of BC Ferries. Consider the following comparison.

> *BC Ferries total capital spending in fiscal 2013: approximately $114 million;*
> *BC Transportation Financing Authority capital spending fiscal 2013: $1.1 Billion:*
> *BC Ferries 2012 operating expenses net over revenue (-$16.5M);*
> *BC Transportation Financing Authority expenses over revenue (-$668M).* (Source: audited consolidated financial reports BC Ferries and MoTI)

The Ministry of Transportation and Infrastructure holds as its mandate to plans transportation networks, provide transportation services and infrastructure and to develop and implements transportation policies.

The Ministry also administers federal-provincial funding programs to build sustainable communities and to link *all* BC communities through innovative strategies that help to build our provincial economy. In order to achieve this goal, the BC Transport Finance Authority was established to secure long term capital requirements which run into billions of dollars every year. These expenditures are amortized to provide government time to realize the benefits that expanded infrastructure provides by creating an stronger economy, which then pays higher taxes to the government.

From 1952 to 2000, motor vehicle registrations went from 405,000 to 6.8 million. British Columbia has consistently had the highest ratio of cars to people in Canada. Despite the increase in fuel costs, the growth in our highway dependency in British Columbia has not significantly diminished. In 1946, the highway system consisted of 34,606 kilometres of road and the entire budget for all ministries in British Columbia that year was $37 million. By the year 2000, the highway system had increased to 84,225 km of road, which cost British Columbians over $400 million in maintenance alone, money that the users of BC highways were not asked to pay through special levies or tolls.

Today the BC Transportation Finance Authority raises $420 million through taxation on fuel, with the general coffers of government collecting an additional $484 million, leaving roughly $11 million for transit contributions. BC Ferries would benefit if the provision of ferry services were stated as a stand-alone item revenue distribution from single source taxation such as the fuel tax.

Composition of fuel tax revenue distribution

($M)	2012/2013	2013/2014	2014/2015	2015/2016
Consolidated Rev Fund	484	488	493	498
BC Transit	11	11	11	11
BC Trans Fin Authority	420	423	426	428

Pacific Gateway Alliance

In 2010, the provincial government made the MoTI the lead ministry with respect to *The Pacific Gateway Alliance* (PGA). This "alliance" brought together several stakeholders in a somewhat unique partnership of transportation industries and governments to oversee the $21 billion expansion of our port, rail, road and airport facilities in British Columbia. The financing for the provincial portion of the PGA is managed through the BC Transportation Finance Authority and is mandated to represent the public interest by assisting in bringing together infrastructure, labour, and service reliability under the direction of a Pacific Gateway Executive Committee. PGA members include senior representatives from the Governments of Canada and British Columbia, the three rail companies, CN, CP, and BNSF, along with the Port of Metro Vancouver, The Prince Rupert Port Authority, and Translink.

The purpose of this initiative is to provide British Columbia with a comprehensive land and sea infrastructure so that we benefit from our expanding economic interaction with Asia Pacific countries. British Columbia Ferry Services Inc. is not a member partner despite the fact that it is the main network of connectivity with British Columbia coastal communities, and in the short term the province has committed to $3.1 billion to increase major road and rail capacity, and a new provincial investment of $700 million in B.C.'s major trade corridors.

Summary

Canadians have long enjoyed the benefit of the well established and practiced principle of fiscal fairness in the application of their tax dollars collected by various levels of government. Governments have realized that the provision of essential services may from time to time require that they be provided by government sanctioned monopolies.

In the case of British Columbia, the government of WAC Bennett realized that to practice the principle of fiscal fairness in regions of the province that provided needed revenue to the government through the resource wealth and industrial/commercial growth, it was important to build an integrated highway system that would properly connect *all* British Columbians. BC Ferries was established as a stand-alone, government-sanctioned monopoly to provide affordable regular transportation service to those who live in ferry-dependent communities.

Where the crown corporations responsible over the years for highways have had the mandate to properly finance and develop British Columbia's road and bridge infrastructure, the BC Ferry Corporation was allowed to drift into financial peril, and in 2003 was restructured into British Columbia Ferry Services Inc., the government is the sole shareholder. Since 2003, BC Ferry Services Inc has paid almost $500,000,000 in loan costs and dividends to the BC government.

BC Ferries services an area with 20% of BC's population, and a wide variety of industries and commercial enterprises, which together provide tax contributions of roughly 36% of BC's annual revenue, yet this area only benefits from about 6% of capital expenditure on highways, including the expenditure on ferries.

Since 2003, the BC government has provided only a small annual subsidy to the corporation, which now experiences decreased ridership and increased cost of delivery of service. This year it is running an operational deficit in excess of $20 million. In order to complete its capital requirements for new ferries and terminals, the Corporation must borrow money using various financial instruments, and currently holds long term debt in excess of $1.3 billion.

Despite the facts set out above regarding the coastal ferry service, the interior ferries continue to be built and run free of any direct charge to the user though the MoTI and BCTFA.

To address the government's violation of the principle of fiscal fairness, and to restore the economic integrity of the BC Coastal economy, BC Ferries should be treated as a tolled portion of the highways and financed through the BCTFA, where amortization of cost is more equitably shared by all British Columbians.

The current structure for BC Ferries fails the test of fiscal fairness and discriminates against those who live in coastal communities.