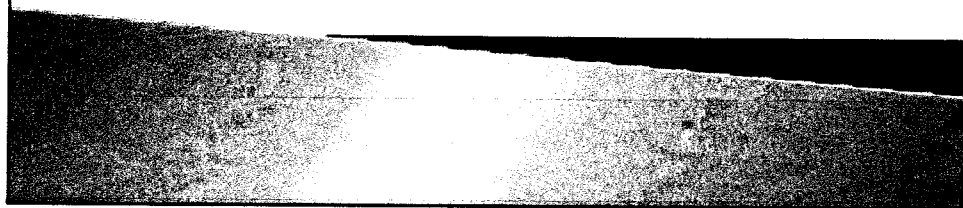


Saturna Island Property Owners
(SIPOA) Presentation to the BC
Ferry Commissioner

Saturday October 1, 2011



Forward Looking Statement

DILBERT



The Coastal Ferry Act: Flawed & Discriminatory

- BC Ferries “subsidy” frozen in 2003

- Cross-subsidy prohibited between major & minor routes

- Competition to be introduced

- No incentive for seeking innovation, productivity improvements and containing costs

- To have heralded an era of modest fares, vessel replacement, long term service commitments....

BCFS advocating serious consideration to dropping routes – such as route 9

Subsidy Frozen: Discriminatory

- The Act froze the Provincial “subsidy” to ferries at 2003 levels.

So have other provincially funded transportation systems have “frozen” funding and user pay to make up the difference?

Frozen "Subsidies": Where else?

Since 2003 :

BC Transit's provincial *funding* has risen by 84.4% (an increase of \$38.4 million)

Translink's (Lower Mainland transit service provider) *funding* has increased by 65.6%

BC has or will *fund*:

- over \$626 million upgrading the highway to Whistler
- more than \$250 million replacing the Pitt River Bridge
- Over a billion dollars on the South Fraser Perimeter road
- In tandem with the feds, over a billion dollars on the Kicking Horse road upgrade. And the list goes on.

BC Transit's funding increased by almost \$40 million

Translink's funding also includes local tax revenues, so it's not quite apples to apples but "indicative" of funding

The province has also contributed to the RAV line, Sky Train and Millenium Line, built the new floating bridge in Kelowna, removed tolls on the only road in BC (and where there were free alternatives available).

Cross-Subsidy Prohibited

Major routes can't subsidize minor (low density) higher cost routes. Hence, minor routes take higher increases to close the gap.

Translink & BC Transit have low density, higher cost routes. But have no cross-subsidy prohibition, and no user pay difference

MoT funds roads & structures, both high & low density. There is no cross subsidy prohibition, no user pay difference

BCFS Major routes cross-subsidize, as Duke Point to Tsawwassen loses \$30 million annually, but their fare increases are treated uniformly

Interesting when you think about Duke Point to Swartz Bay. There are other ferry services in place (Horseshoe Bay to Nanaimo, Swartz to Tsawwassen) that provide a economic and efficient alternatives. Cross subsidy allows the Duke Point route lower fare increases, and yet there is a "profitable" alternative.

Almost a minor routes have no alternative

Cross Subsidy = Normal

Most successful businesses with multiple product lines have variable margins with cross subsidization

Prohibiting cross subsidization leads to failure

Prohibiting cross subsidy of low density routes has but one purpose; justifying abandonment of routes:

Prices rise on low-density routes to the point where passenger volumes decline to levels will not support capital reinvestment

Not a new concept, just an unusual one for government to support

Airlines, passenger rail, transit, ocean-going operators all have multiple product lines with variable margins.

Artificial cross-subsidy constraints are very rare, and in my experience imposed for one reason – to force route abandonment.

So What has Happened?

Since '03, minor route fares rose 60%+

Since '03 CPI rose 11%

Not so for road users (no increase, other than fuel costs)

Not so for transit users (limited to inflation)

No so for inland ferry users (its free)

So what we see here is a different treatment for ferry users and in particular those on minor routes.

Even Northern ferry routes received an increased subsidy of \$20 million per year after BC Ferries, presumably to fund capital required to replace the Queen of the North, after the disastrous incident in which the ferry was sunk due to the gross negligence.

And what does it mean....?

· frozen funding + no cross subsidization + user pay system = **5.5 times CPI for basic transportation.**

Significant economic hardship leads to:

- Businesses failing
- Job opportunities declining
- Families abandoning high cost islands
- Infrastructure deteriorating
- Fewer visitors, declining populations

Which (of course) leads to fewer ferry trips, even higher "user pay" fares – a downward spiral

What would have happened to other communities if the province froze "funding" in 2003?

And prohibited cost recovery?

And set up user pay cost recovery (tolls on roads, transit fares quadrupling and more)?

Interesting that the province sets up the islands Trust to preserve and protect the unique communities in the islands, and then buries them with discriminatory removal of funding for basic transportation

But that is precisely what the Coastal Ferry Act accomplished for the minor routes, and our Southern Gulf Islands

SIPOA Recommendations

- That the Province immediately raise annual funding for the ferry system
 - That the Coastal Ferry Act be amended to remove the arbitrary disparity of treatment between minor and major routes.
- That the province provide capital for vessel replacement on minor routes – to offset higher fare increases imposed since 2003

Now is the time for an immediate and significant course correction, to turn this ship to a reasoned path so she doesn't run aground on the rocks of

Competition: What Happened?

The Coastal Ferry Act encouraged the incumbent operators to seek competitors to operate routes.

After 8 years, one small passenger only (water taxi) is run by a private operator.

Why such an abysmal failure?

Because BC Ferries ran the process:

Preparing the request for bids,
evaluating the offers,
and awarding the business,
oh, and bidding as well.....

So no real competition was ever introduced, or any its benefits

SIPOA Recommendations

That the Coastal Ferry Act be amended to provide a third party to seek competition; run the process, evaluate bid & award routes

That splitting ferries into two companies be considered; one providing terminal services & one operating ferries

This provides something closer to a level playing field for (private) ferry operators and is similar to separations of rail infrastructure and operators in many other countries

Now is the time for an immediate and significant course correction, to turn this ship to a reasoned path so she doesn't run aground on the rocks of

Competition: What else?

- BCFS was unsuccessful in introducing competition, but not at exporting competition
 - Drop Trailer Service - BCFS found to use its subsidized & tax exempt status to depress prices in the private sector
 - BC Ferry Vacations - BCFS' recent foray into "packaging travel experiences".
 - No expertise, existing market over-saturated
 - Significant costs: training, systems, marketing, branding...
 - Dubious value - nominal incremental revenue aimed at peak capacity-constrained travel periods

Drop trailer service required significant investment to displace private sector operators

Duplicating this with BC Ferry Vacations, without expertise in the marketplace and high upfront & continued costs.

Following a failed model from other like entities

What was BCFS thinking?

SIPOA Recommends

- The Commissioner investigate the business case for BC Ferry Vacations determining:

Upfront costs, capital & expense including

- Systems to support reservation systems
- Staff training and additional employees hired
- Marketing, advertising and "branding" costs
- Facilities cost, including Vancouver multi-media office

Against revenue gained by BCFS net of commissions & payments to 3rd parties (i.e. resorts)

Commissioner to publish findings

Cost Containment

BCFS announced program earlier this week:

Ridership down mainly due currency, economy (?)

Recommending service reductions & wage freeze

Pitched minor routes "subsidized", majors not

Reduction in charitable donations

Reducing bonuses for execs

Akin to rearranging the deck chairs on the Titanic

BCFS somehow believes there is no impact from rising ferry fares? Clearly demonstrates disconnect from reality

But ferry transportation IS price elastic, just ask anyone in this audience, whose family members no longer visit, or whose businesses are in jeopardy because ferry costs to the islands make their businesses uncompetitive (as compared to other areas in BC with "funded" transportation

SIPOA Recommendations

Compensation should be linked to cost containment & service performance (union wages & management salaries)

Focus on core business; delivering safe, reliable, cost efficient transportation (ridership will follow)

For routes 9 & 5, consider home port dedicated vessel (Mayne, Pender or), hub/spoke concept fed between Swartz & Tsawwassen

Now is the time to seriously contemplate private sector participation in delivering a cost effective, *funded* service.

So lets think outside the box. BC ferries has solid people but a dysfunctional labour/management environment. Tying compensation to performance works, particularly if uniformly structured.

Conclusion

Coastal Ferry Act failed badly, needs revamping

Status quo unacceptable, damage to island economies and social fabric needs mitigation

Basic transportation is *funded* across the province; ferries are basic transportation...

End ferry "subsidies" and start "funding" ferries, just like other public transportation in BC is "funded"