

# The future of BC Ferries: tough decisions needed to stay financially afloat

First in a series: Quasi-private corporation grapples with how to shore up a service that is sinking in a sea of red ink, with fares already at a tipping point

BY CRAIG MCINNES, VANCOUVER SUN SEPTEMBER 15, 2012



BC Ferries is in a tough spot. As fares go up, ridership drops, but because of the contract between the government and the company, service levels cannot be cut to lower costs.

**Photograph by:** Alison Appelbe, Vancouver Sun

In August the sun shone and people started travelling again. After a dismal spring, BC Ferries was able to announce that its ships carried about three-per-cent more traffic for the first few weeks of the month compared with the year before.

But a good month doesn't make a trend, and for the past couple of years, the trend line has been pointing to trouble for a ferry service that was remade about a decade ago in a way that was supposed to keep it off the financial rocks it is now heading toward.

In mid-June, the quasi-private corporation reported that for the last fiscal year it lost \$16.5 million, with foot passengers at a 21-year low and vehicle traffic at a 13-year low.

For ferry watchers, the details of the bad news merely confirmed what BC Ferries Commissioner Gordon Macatee reported in January — that the ferry service remade by the Liberal government nine years earlier to take the politics out of what should be business decisions was in need of another renovation. This time, however, the tough decisions needed to keep the ferries financially afloat will be back in the hands of politicians, because of the effect they will have on life in island communities.

Macatee says fares are already at a tipping point beyond which many users can't afford to go. Even higher losses could result from raising fares more to cover rising costs and revenues lost because of falling ridership.

By November, the B.C. government expects to have a report from a consultant hired to poll ferry users for their views on how to bail out the ferry service before it sinks in a sea of red ink.

Before he was replaced as transportation minister in a cabinet shuffle, Blair Lekstrom said in an interview that changes will be required.

“If we need to actually find a way to have an affordable, sustainable system, and affordable is the key word I hear, then we’re going to have to look at some changes,” said Lekstrom, who is not running in the May provincial election.

“Don’t come out and tell us that you just want the service to stay the same, because that’s a non-starter.”

Changes won’t come easy, however, for a ferry system that has served and shaped British Columbia’s coast since being launched by a premier who decided the provincial capital in Victoria couldn’t be held hostage to a strike by a private company. The Dogwood Fleet launched by W.A.C. Bennett in 1958 has grown into one of the largest ferry services in the world, with 35 ships plying 25 routes. Up and down the coast, people have planned their lives around the expectation that the service we have today will be there tomorrow.

As the fleet aged, debts mounted with the high cost of replacement ships in the 1990s, which saw the addition of the Superferries and the ill-conceived fast ferries.

When the Liberals took over from the NDP in 2001, Premier Gordon Campbell declared the publicly owned and operated BC Ferries system broken, with its ongoing losses and no affordable plan for renewing the aging fleet.

The fix, the government decided, was a new corporate structure that allowed BC Ferries to be managed as though it was a private corporation even though it was publicly owned, with the provincial government as the sole shareholder.

So in a symbolic break with the past, the once-proud Dogwood flag was retired, replaced by a vaguely modernist ensign representing the all-new B.C. Ferry Services Inc. A president and CEO was hired from the private sector and given a relatively free hand to run the company. In his new role, David Hahn plowed straight into controversy with a messy fight with the union and a decision to break tradition and go offshore to buy new ferries.

Labour relations slowly improved, however, and the three Coastal-class vessels ordered from Germany proved their worth in daily service.

The biggest controversy left after seven years turned out to be the relatively large pay packet Hahn and other top executives at the corporation were taking home. In the face of public outrage over his million-dollar salary, the province amended the Coastal Ferry Act so that henceforth — even though the corporation was intended to mirror a private-sector company — the top executive salaries would not be so far out of line from the public sector.

By most traditional measures, the new company was a success. New ships were in service, their on-time record was improving and customer satisfaction was on the rise.

In his January review, Macatee found that in comparison with other large ferry systems around the world, BC Ferries is “relatively efficient.”

“Indeed, many ferry operators appear to want to emulate some of BC Ferries practices.”

So the car was running great. Unfortunately, it was still headed off the road. That’s because while B.C. Ferry Services Inc. is the engine that pulls it along, the government is still in the driver’s seat, despite its efforts to depoliticize ferries.

“Our job is to run the business as efficiently and as safely as we can. The government’s job is to set the service level and the service fees,” says Mike Corrigan, who took over as CEO after Hahn retired last year.

The province sets the direction through a services contract that was put in place when BC Ferries was reconfigured to assure ferry-dependent British Columbians that the new quasi-private corporation would not enhance its bottom line by simply cutting service on money-losing routes.

In return for insisting the service be maintained, the province provides an annual subsidy in the form of a service fee, which was \$128.3 million in the last fiscal year. Provincial and federal subsidies added another \$27.5 million to BC Ferries revenues, which totalled \$738.2 million last year.

So the company delivering the ferry service was reformed but the service it delivered was frozen in time. That hasn’t worked out so well.

Over the decade, fares had been increasing to cover the costs of servicing the debt for new ships and the soaring price of fuel. On some routes, the increase was more than 100 per cent.

Then ridership stagnated and started to fall. Fewer passengers means less revenue without resulting in lower costs. To bridge the gap, fares have to be raised again, since the service levels provided by BC Ferries are mandated by the contract between the company and the government.

The result is that ferry users complain they are paying too much while the operators have to service routes that — from a financial point of view — make no sense.

The only routes that break even are the majors that run between Vancouver Island and the mainland. The biggest money losers are in the north, which get more than \$50 million — almost a third of the total annual subsidy — for just three routes.

Almost all of the other minor routes also lose money to a varying degree and are kept afloat with the service fee.

But even with the bump of \$80 million over four years that was announced in the spring, there isn't enough money coming in to continue to run the system the way it has been. The situation is even more dire when the need to replace more ships over the coming years is factored in.

And there are no easy options for closing that gap.

“Either the fares have to go up or the service fees have to go up or the level of service has to go down,” says Corrigan. The government blunted the impact of another fare increase slated for this spring with the injection of new money. But everyone knows it's only a stopgap measure. And what the consultant will quickly find is the solution to the problem ferry users have in mind is the polar opposite of what the government says is possible.

Ferry users blame the decline in ridership primarily on the increase in fares. Raising them again will just drive more people away while further disrupting life in island communities. In his report, Macatee agreed, arguing fares were at a “tipping point” and that future increases needed to be kept to the rate of inflation. Raising them more to cover rising costs and revenues lost because of falling ridership may lead to even higher losses.

That conclusion was drawn almost a year ago, before the latest increases, says Bill Cripps of Powell River, the chairman of the Ferry Advisory Committee for the north Sunshine Coast. “Now a full year later we're at the tipping point plus four-per-cent more, which was added in April of this year.”

Cripps says the only way to increase ridership is to reduce fares by 25 per cent, rather than increasing them further.

“The commissioner was dead right and there is no easy way out of it other than an increase in subsidy that nobody really wants to talk about,” he says.

Lekstrom is happy to talk about an increase. But what he has to say is not what ferry users want to hear.

“Is more money in the cards right now? No, it isn’t.”

That sets the stage for what is most likely going to be a rough ride this fall for a consultant with some tough decisions at the end that are bound to have a significant impact on the lives of people who depend on ferries for their access to the outside world.

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## Gulf Islands fear ferry changes

### Residents resent fare increases, but see money-losing service as extension of highways system

BY CRAIG MCINNES, VANCOUVER SUN SEPTEMBER 16, 2012



Ganges is the main community on Salt Spring Island, with shops selling clothes and gifts. Residents fear ‘rationalization’ of ferry services will affect their lives significantly.

**Photograph by:** Theresa Schadeck-Storm, Postmedia News

For a small town on an island, Ganges is remarkably well connected.

The bustling commercial centre of Salt Spring Island has good roads, a local bus service and even a downtown airport — if you count the harbour where seaplanes regularly land and take off. Within a few kilometres it has three ferry terminals that provide reliable links to other Gulf Islands, the mainland, Victoria and Vancouver Island north of the Malahat.

The ferries are among the most heavily used of the minor routes operated by British Columbia Ferry Services Inc., the quasi-private company that runs the ferries under contract

to the provincial government.

For the people who live on the largest and most heavily populated of the Southern Gulf Islands, who are an eclectic mix of new money, old hippies, ordinary working families and everyone in between, the ferries are as important to the patterns of life as the rising of the morning sun.

But the ferry service is in trouble. It's losing money. Ridership is down across the system. The loss of revenue in a system run with the principle of "user pay" adds to the pressure to raise fares.

The fixed schedules also mean that ferries are running with less than full loads. So the province has hired a consultant who is to report back on ways to rationalize service. Not surprisingly, that's being interpreted as making some cuts, a view that was strongly telegraphed by Blair Lekstrom before he was replaced as B.C.'s transportation minister by Mary Polak.

"When we've got ferries that aren't running at capacity and we've got an organization that's having a difficult time delivering that level of service with that few of passengers, you've got to go in and have a re-evaluation of the service you are providing," Lekstrom said in a telephone interview.

Lekstrom knows he represents a view of the ferry service that isn't very popular on the islands where the ferries are perceived as an extension of the highway system.

"People don't like hearing this, I know, but if you choose to live on an island, that's a quality-of-life choice you are making. If I choose to live in the northern part of the province I know my costs to take my children to the Children's Hospital in Vancouver, for example, are significantly more than for people who live in the northern mainland. That's a choice we make as families," he said.

Islanders don't reject that view out of hand. Many do choose to live on an island. They don't want bridges, even if they were practical, that would turn their idyllic retreats into boring bedroom suburbs for the nearest cities.

But they argue that any changes have to respect the way that they have historically shaped their lives, their businesses and their investments in their homes around the premise that their highway system — which just happens to run on the water — will continue to operate as it always has.

As chairman of the Salt Spring Island Ferry Advisory Committee, Harold Swierenga knows how even small changes can make a big difference.

"People build their lives around a certain schedule. They get a job, they have to be at that job at a certain time at the mill in Crofton or over in Victoria or whatever and if you change too much it can really distort something that they base their whole life on," he says.

"If you change a sailing by half an hour you will foul somebody up."

Robert Steinbach, the president of the Salt Spring Island Chamber of Commerce, moved to the island four years ago from Toronto. He says the rising fares increase the price of

everything else. In a letter to the province last year calling for an increase in the provincial subsidy, he pointed out that it already costs more to buy groceries and fill a car with gas and that people who work on the island can't expect to be paid a similar premium.

The only thing falling has been the value of real estate. Local realtors estimate the price of housing has fallen by about a third since mid-2007. And people have moved away. The population of Salt Spring dropped from 10,464 to 9,780 between 2006 and 2010.

Steinbach, who owns Moby's Oyster Bar at the head of Ganges Harbour, argues that maintaining affordable ferries is an issue that should concern more than just island residents because of its effect on tourism, which should be considered a "core industry" in B.C.

"Tourists will spend a lot of money if we have a good offering and we do have a tremendous offering here on Salt Spring, particularly, but in lots of other communities as well and if we don't facilitate tourists being able to get there, then we can't expect them to leave their dollars with us and help support our economy."

Like most of the minor routes, those serving Salt Spring are all losing money. As ridership declines, they lose more.

Swierenga concedes that having three ferry terminals may not be the most efficient way to serve the island. Starting from scratch today, it might make sense to have just two. But moving terminals is prohibitively expensive because of the roads and infrastructure needed to serve them.

The three routes leading off Salt Spring head in different directions, just like the roads leaving any town on the mainland.

To the west is the shortest run between Vesuvius Bay on Salt Spring and the mill town of Crofton on the Vancouver Island side. It's the route for commuters who work at the mill, for anyone heading up toward Nanaimo and the main supply route for many of the businesses in Ganges.

On the south side is the Fulford Harbour-to-Schwartz Bay run. It's the connection to Victoria and a transfer point for people who are heading to Tsawwassen.

The third terminal, in Long Harbour, a short distance to the east of Ganges, also serves travellers heading to the mainland on a ferry that makes stops at other islands along the way. It's the only one of the three routes that can be reserved. It's often full in the summer while running with much lighter loads in the winter, as do most of the ferries in the system.

Swierenga says the fare increases that have been imposed since the Liberals launched the new company have already changed the way people use the ferries.

"My wife and I are retired here but we at least have pensions. Every time you take a ferry now it's a multiple-purpose trip," he says.

Swierenga speculates that the habit of travelling off the island less may be a hard one to break and that could make it more difficult to stem the decline in ridership.

"Ridership may not come back unless there's an increase in population."

Still, like most islanders, both the Salt Spring Island Chamber of Commerce and the Ferry

Advisory Committee believe the only long-term solution is for the province to increase its subsidy so fares can be reduced or at least held to the rate of inflation, as the Ferry Commissioner urged in his report earlier this year.

That isn't going to happen, says Lekstrom, setting the table for difficult negotiations ahead.

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## BC Ferries debate hinges on affordability

### Third in a three-part series: Controlling costs is the primary concern for government and passengers alike

BY CRAIG MCINNES, VANCOUVER SUN SEPTEMBER 17, 2012



Empty vehicle lanes — such as this one at the Horseshoe Bay terminal in West Vancouver — are a growing concern at BC Ferries terminals throughout the province.

**Photograph by:** Ward Perrin, Vancouver Sun

As B.C. sets out on the next makeover of the marine highway system, one word comes out most often — affordability.

But there is a vast gulf in how that word gets defined between the people who provide the service and those who depend on it.

The stage for this debate has been set by declining ridership and a decade of fare increases that B.C. Ferry Commissioner Gordon Macatee concluded earlier this year have reached a tipping point. He recommended that future fare increases be held to the rate of inflation. But he said ferry users were also going to have to contribute to the solution by agreeing to reasonable service cuts.

That report reinforced the complaints by ferry users that the rising fares have become a barrier to travel to and from their island communities, disrupting family life, depressing business and discouraging tourists.



So for people who depend on ferries, the issue is that their transportation network has become too expensive to use. For the government that provides the subsidy that would have to be increased to lower fares, affordable means the limit of what they can ask taxpayers to support.

This spring, the government increased the subsidy by \$80 million over the next four years. That's enough, Victoria says. Now ferry users have to help solve the problem by agreeing to service cuts on underutilized routes.

"We're spending more money today than we're bringing in so unless they're saying we'd like to cut health care or education to give to the ferry users, you know, there has to be a realistic expectation of where that money would come from," Blair Lekstrom said in an interview, before he was replaced as transportation minister by Mary Polak.

Ferry users don't see it in those terms. They say ferries are no different than highways, bridges or tunnels that are part of the provincial road network.

"You don't necessarily have to take away from education and health or all of those high-profile things," said Bill Cripps, who lives in Powell River and chairs the North Sunshine Coast Ferry Advisory Committee.

"The ministry of transportation has a pretty large budget. They spend a lot of money on roads and bridges. As taxpayers of British Columbia, we contribute to that as well. We're just looking for our fair share."

Cripps says fares should be cut by 25 per cent as a starting point. That would have cost the government about another \$115 million on top of the \$155 million it provided as a subsidy last year.

The cost would be less, of course, if the lower fares tempted people to ride ferries more often. But there is no evidence that would happen. Ridership has been in decline even on the free ferries that are operated as part of the highway system.

There is no sure formula for reversing the decline in ridership, according to BC Ferries CEO Mike Corrigan.

"We've talked to the best and brightest economists in the world who study these sorts of things all the time and they can't build equations that forecast the future right now; there's just so much variability."

BC Ferries has been working on increasing revenues from sources other than fares and subsidies. The system already brings in about \$100 million a year from retail sales, food services and a drop-trailer service for truckers. A recently opened travel office in Vancouver is also starting to pay off.

The agency is also looking at converting ships to natural gas, which is now much cheaper than diesel. That holds promise for new ships, but because conversion means replacing engines, the economics of converting are less compelling for existing ferries.

So while fuel is one of the primary cost drivers, the best way to save fuel on the ferries is still to run them less. Each round trip by a Spirit-class ferry burns 8,400 litres of diesel, Corrigan said.

Last month, BC Ferries announced it was cutting 98 round trips on major routes over the winter, out of the 185,000 sailings it operates each year. But it will have to cut much more than that to come up with the \$30-million shortfall projected over the next four years.

Part of the consultation exercise over the next few months will look at whether the future ferry system should be based on what now exists or whether improving public transit on land will make it possible to have more passenger-only ferries.

The opening of the Canada Line, for example, has already made it much easier to get quickly from the ferry terminal in Tsawwassen to downtown Vancouver.

But that's a project for the longer term. More immediately the consultant will be expected to gather views on how to cut costs by reducing the number of runs that are operating at well below capacity, primarily on the smaller routes in the Gulf Islands, the Sunshine Coast and the North.

Said Lekstrom: "I'm getting people sending me pictures or sending me emails about getting on the ferries and the decks being only a third full, even on the majors. I want to maintain a ferry service in our province. It's part of our transportation network, but you know we can't just keep throwing money at a problem if that's not working."

Ferry users concede that ferries are running at below capacity but argue that while a ship may run nearly empty in one direction, there could be 20 cars waiting on the other side to go back.

The consultant's report is expected to be complete in November, at which point Premier Christy Clark's Liberal government will have some difficult and potentially unpopular decisions to make.

Meanwhile, the ferry critic in the NDP's shadow government has been firmly on the side of ferry users.

"The fares are just outrageous," said North Coast MLA Gary Coons, who is not running in the May election. "We've got to rein those in and try to get BC Ferries back on track."

To do that, Coons said the quasi-private company set up by the B.C. Liberals almost 10 years ago needs to be turned back into some form of a Crown corporation.

He also echoes the call for ferries to be considered just another part of the highway system. "When there's infrastructure, whether it's new roads or highways, that's got to be part of a taxpayer base we all pay for. It shouldn't be based on a user-pay model," Coons says.

As to whether that can be done without taxpayers paying a lot more than they do now: "That's a very good question."

Coons' response to where savings might be achieved through service reductions is similarly vague.

"Again, that's a real tough one. You've got to go into communities, there might be some late-night sailings or some early-morning ones, but again, that's got to be a consultation," said Coons, who accused the government of using an outside contractor "to do the dirty work."

Some ferry users say in principle that they are ready to consider reasonable changes.

"We've got an old model that is clearly breaking down because of the tremendous demands on the ferry system and high costs of maintenance and all the rest of it that perhaps could be mitigated with some new thinking," said Robert Steinbach, president of the Salt Spring Island Chamber of Commerce.

One proposal he thinks would be worth considering, especially in the busy season, is to abandon the schedule and wait until the ferry is full.

That, however, might not be popular with people waiting on the other side.

But with a system that most agree is already efficiently run, there are no painless paths back to fiscal stability — whether the answer is higher fares for users, higher taxes for all British

Columbians or simply less of the high-quality ferry service island communities have grown to expect.

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