

B.C. FERRIES – HIGHWAY EQUIVALENCY

In 1977 when W.A.C. Bennet consolidated all small maritime ferry operations into BC Ferries as a Crown Corporation, he realized that BC Ferries needed financial assistance for its successful operation. He compared the routes serving ferry dependent communities as a two lane provincial highway in hilly country and devised a formula that worked out as an annual assistance of \$ 35.56 mn, worth \$ 119.677 mn today. The justification for this was the opening for economic developments in viable areas, which were not served by roads. The most economic access was provided by maritime transport = ferry services

When the Province accepted the Federal grant for maritime traffic in 1977, a condition for the \$ 8 mn annual grant (worth \$ 26.924 mn today), was that the ferry routes would be treated as part of the provincial highway system.

The province constructs highways with all its components, bridges, tunnels, avalanche protection galleries, rest areas/facilities, pedestrian over/underpasses, separate bike/bus lanes, traffic lights etc. etc. The cost of all this is capitalized and added to the provincial debt. However, ferry terminals and ships are legally mandated to be financed and amortized! The highway equivalency must be a compensation for these amortization and the financing charges (infrastructure cost). (The financial statements covering the Department of Highways show that with the gas tax and the vehicle licensing fees they only cover fractionally more than the “operation costs” (repairs and maintenance) but for the infrastructure costs (building new roads and major upgrades of roads) they are “taxpayer funded”!

In order to “open land” in the coastal regions at least two options present themselves.

One is ferry service with terminals and ships, which cost money to construct and operate and are legally mandated to be financed and amortized, presently through fares. Economically ferry routes are the **equivalent of our provincial highway!**

The other option is a “fixed link” through roads, bridges, tunnels etc., which in practically all cases is very much more expensive than maritime transport. Roads, bridges and tunnels result in huge capital costs. This cost is converted into provincial debts, and the servicing cost of such debts are **borne by all BC taxpayers**, by the recently constructed \$ 2 billion Vancouver Island Highway and the \$750 million billion Sea to Sky Highway upgrade.

Question: “Why should the much cheaper costs for financing and amortization of our maritime transport be **borne solely by ferry travelers**, who are also provincial tax payers? Is this financial burden on residents in ferry dependent communities defensible, fair, equitable and transparent?

One other consideration is the

“Cost of Opening Land” and “Keeping the Transport Channels Open”.

Opening of land, so that economic activity can flourish, is one of the tasks of Government. Through economic activity, which encompasses construction of buildings/infrastructure for

agriculture, mining, forestry, fishing; manufacturing; services and administration, etc. government derives a large amount of income. Through personal/business income taxes, sales taxes, other taxes, royalties, stumpage, license fees/levies and other fees, etc. etc.

Without this transportation link (ferry), which opens up the land, Government would not cash in this huge income. Therefore, it stands to reason that it has to safeguard/support this transportation link by giving some of this huge income back by way of the 'Ferry Transportation Fee' = "Highway Equivalency".

Fuel being the second largest expenditure item of BCFerries, they have obtained permission from the Ferry Commissioner to impose large "fuel surcharges" on top of the ferry fares. The BC provincial Government has granted northern areas a "Northern Allowance", compensating them for their remoteness from mainstream towns. Ferry dependent communities suffer similar "remoteness" and are worthy of special financial consideration by our provincial government.

For once the Federal Government seems to have it right by providing an annual contribution to the maritime transport system in B.C. of around \$ 27 million indexed to the cost of living!

"Why cannot our provincial government see the value and necessity of support for our "provincial highway" on the coastal waters for our ferry dependent communities?"

It can be debated how high this provincial support, by way of the Ferry Transportation Fee = Highway Equivalency should be, e.g.

- a) the amortization and financing costs of the terminals and ships, or
- b) the cost of the annual interest to service the hypothetical debt incurred for the hypothetical construction of fixed links –roads, bridges or tunnels, or
- c) the "flow back" of Government income from the economic activities in the ferry dependent communities, or
- d) a combination of a), b) and c).

Looking specifically at our R. #3 – Langdale –Horseshoe Bay, we are "almost there". Because of high tariff fares and fuel surcharges, our R. #3 generated \$ 8.305 millions "Earnings from Operations" during 2010/11. If Government recognizes that R. #3 is our provincial highway and absorbs "amortization and financing"

(\$ 11.257 mn), then our route is profitable!

Only by taking every aspect into consideration and dealing with it in a defensible, fair and equitable manner will the residents of our Southern Sunshine Coast regain confidence in BC Ferries, the BC Ferry Commissioner and Government.

Summing Up: We earnestly request that in view of our ferry dependency and our arguments for "highway equivalency", we are treated in a defensible, fair, transparent and equitable manner.

Because of our ferry dependency we strongly advocate that Government upgrades the present “Ferry Transport Fee” which must cover the cost of amortization and financing expenses for the ships plying our R. #3 and the terminals they use. This would put us on par with the rest of the traveling public in BC using our highways.

B.C. Department of Highways/TFA – Tax Dollars funded Subsidy

(MoT 2006/07 Annual Svc Plan Report, pp 28, 31)

REVENUE (\$ millions)

Highway tolls & permits

| | |
|---------------------------------------|--------------|
| • & other – MoT | 98.6 |
| • Other (property revenue, etc) – TFA | 57.3 |
| • Gas/car rent tax | <u>429.2</u> |
| • Total Direct Revenue: | 585.1 |

DIRECT OPERATING EXPENSES (\$ millions)

MoT

| | |
|---------------------------------|--------------|
| • Highway Operations | 450.7 |
| • Transportation improvements | 15.7 |
| • Administration (exec/support) | <u>14.9</u> |
| • MoT total | 481.3 |

TFA Operations (Transport Funding Authority)

| | |
|-----------------------------|--------------|
| • Heartland Roads Program | 29.1 |
| • Ops/admin | <u>42.6</u> |
| • TFA total | 71.7 |
| Total Direct Expense | 553.0 |

Operations earnings + 32.1

Capital Cost

| | |
|---------------------------------|--------------|
| • TFA Debt Interest | 176.5 |
| • MoT cap expenses | 5.2 |
| • TFA net amount (amortization) | <u>160.5</u> |
| • Total Capital Cost | 342.2 |

| | |
|---|---------------------|
| Direct Expense + Capital Cost | <u>895.2</u> |
| Excess of Expenses over Revenue | 310.1 |
| Direct cost recovery ratio dir rev/direct exp | + 5.8 % |
| Full cost recovery dir rev/dir exp + amort/fin | 65.4 % |

It might be noted that the province captures all the basic gas tax (6.75 cents/liter) for provincial highway purposes even though much of the travel is on city and municipal streets and roads.

The additional gas tax that Trans Link captures is not included in the above numbers. As well the grants to BC Ferries, BC Transit and Trans Link are not included as they allegedly have nothing to do with highways.

The TFA cost of the inland ferries is included however, as they are ‘part of the highway system’.

“The motor licensing fees, gas tax and highway tolls are just about covering the operating expenses”;

Amortization and financing expenses of roads and the provincial debts incurred for highway constructions **are funded out of tax dollars.**

Therefore, our argument that the Province should pay for the infrastructure costs (amortization/financing) for ferry services to ferry dependent communities, is still valid.)

(excerpt from the ferryhostage web site)