

PERFORMANCE TERM 3 (PT3) SERVICE ADJUSTMENTS WILL NOT SOLVE THE PROBLEM

November 10, 2013

Coastal Ferries Service Contract: PT3, Price Caps, Traffic and Service Adjustments

BC Ferries annual Business Plans for Fiscal 2013 and 2014 forecast a moderate increase in traffic for F2013 and traffic steady at F2013 levels for F2014, the first two years of PT3.

Price Caps of a nominal 4% were set by the Commissioner for PT3 based on traffic remaining at F2012 levels for all four years, according to the 'plan' submitted by BCF.

Traffic was well below 'plan', more than 1%, for F2013, and at mid F2014 is showing a further traffic loss of about 1% overall. It is unlikely that the F2014 traffic loss will recover over the next 6 months so BCF will again be reporting traffic below their business plan at fiscal year-end, likely 1% or more.

In the Coastal Ferry Services Contract (CFSC), a new section 3 describes 'service adjustments' to achieve net savings of \$30M over the 4 years of PT3; details to be agreed and the CFSC amended by June 30, 2013. Currently the remaining net savings target to be realized in the next two years is \$18.9M and the amended CFSC delayed until April 1, 2014.¹

Financial impact of traffic loss against the PT3 'Plan' for Fiscal 2013/14

The financial impact of traffic loss has been calculated by route based on vehicle and passenger numbers and average fare for each route. Results can be expressed as a variance to the PT3 'plan' with respect to the tariff revenue component as follows:

Fiscal 2013 – Negative variance to 'plan' for traffic revenue of (\$4M)²

- Reason for variance; traffic approximately 1% below 'plan'

Fiscal 2014 – Mid year forecast indicates traffic loss will be approximately 1% below F2013 levels. Negative variance to 'plan' for traffic revenue of (\$8M)

- Reason for variance; traffic expected to be 2% below 'plan'

Cumulative variance to 'plan' for the first two years of PT3 is therefore (\$4M) (F2013) plus (\$8M) (F2014) for a total projected variance of (\$12M).

Outlook for the balance of PT3, Fiscal 2015 and Fiscal 2016

Fiscal 2015 will begin April 1, 2014 with another 4% fare increase and notice of service adjustments saving BCF \$18.9M over the next two fiscal years. A further 4% fare increase happens April 1, 2015.

The combination of fare increases and service cuts will likely prevent any significant traffic recovery by the end of PT3 as more ferry users will reach the 'tipping' point of affordability and the service cuts may mean some ferry users may have to make significant changes to their ferry use which could also negatively impact ferry traffic. The best case scenario is that ferry traffic will remain at Fiscal 2014 levels for the balance of PT3. Given that assumption, the following variances to the PT3 'plan' are expected over the final two years.

Fiscal 2015 – Negative variance to 'plan' for traffic revenue of (\$8M)

- Reason for the variance; traffic remains at F2014 levels

Fiscal 2016 – Negative variance to 'plan' for traffic revenue of (\$8M)

- Reason for the variance, traffic remains at F2014 levels

Looking at the best case scenario for PT3 based on the situation to date is that the cumulative variance to the PT3 'plan' is a total of (\$28M). This variance can be directly compared to the current Provincial initiative to find \$18.9M in savings from service adjustments by the end of PT3. Note that this is a very conservative estimate and that further traffic losses could happen in Fiscal 2015 and F2016. A more likely case is that the traffic in the final two years of PT3 will continue to respond to increasing fares and will continue to decline at a 1% level on a year over year basis. Should that be the case, the cumulative variance to 'plan' for PT3 will rise to \$40M.

This outcome is the reason for the title of this document. The real problem is that escalating fares are the most significant factor in declining traffic across the BC Ferries system. At the end of PT3 the Province and BCF will find themselves in a very similar financial position to the one they were in at the beginning of PT3. In addition the Communities that BCF serve will have experienced further harm to their local economies and may be close to the point of no return. The downward spiral will not have been stopped. **Service adjustments will not have solved the problem!**

At some point in the very near future the Province has to recognize that the transportation infrastructure that BCF provides drives the sustainability of coastal communities. That transportation structure must be affordable, adequate and reliable and must be treated fairly in terms of the financial support provided to transportation infrastructure in the rest of the Province.

1. The original \$30M in service adjustments was initially reduced to \$26M as a result of service adjustments already implemented by BCF. This target was further reduced to \$18.9M as a result of not being able to implement service adjustments by June 30, 2013. The revised target and implementation date has been agreed in a further amendment of the CFSC.

2. The \$4M variance is calculated on a route by route basis using the Fiscal 2013 traffic loss for each route, passenger and vehicle, and multiplying that by the average fare for each category and summing the positive and negative variances for all routes. Data used is taken from the BCF report to the Commissioner for Fiscal Year 2013. Passengers were down by 250, 879 ferry users and vehicles were down by 92, 578.

PASSENGERS						VEHICLES				
rte	2013 traff	2013 traf gap	2013 rev	2013 avg rev	2013 rev delta	2013 traff	2013 traf gap	2013 rev	2013 avg rev	2013 rev delta
1	5,589,971	(55,042)	71,285,026	\$12.75	(701,912)	2,090,878	(10,814)	106,069,958	\$50.73	(548,593)
2	3,310,473	(29,726)	41,754,677	\$12.61	(374,931)	1,289,221	(469)	62,385,432	\$48.39	(22,695)
3	2,501,900	(37,463)	13,193,508	\$5.27	(197,557)	1,205,738	(19,280)	24,187,908	\$20.06	(386,770)
30	1,374,878	(21,354)	17,053,913	\$12.40	(264,874)	825,623	(2,557)	50,786,226	\$61.51	(157,288)
MAJORS	12,777,222	(143,585)	143,287,124	\$11.21	(1,610,200)	5,411,460	(33,120)	243,429,524	\$44.98	(1,489,873)
10	38,108	(1,514)	4,927,807	\$129.31	(195,778)	13,516	(487)	4,054,804	\$300.00	(146,100)
11	35,791	1,304	1,221,945	\$34.14	44,520	17,464	280	2,974,177	\$170.30	47,685
40	6,949	416	767,658	\$110.47	45,956	2,643	153	755,794	\$285.96	43,752
NORTH	80,848	206	6,917,410	\$85.56	(264,874)	33,623	(54)	7,784,775	\$231.53	(157,288)
4	619,939	(7,141)	2,639,135	\$4.26	(30,400)	307,636	(6,179)	3,187,926	\$10.36	(64,031)
5	459,393	(8,183)	1,855,653	\$4.04	(33,054)	255,146	(5,539)	2,995,893	\$11.74	(65,038)
6	478,733	(11,297)	1,669,174	\$3.49	(39,389)	250,470	(4,969)	2,789,438	\$11.14	(55,339)
7	331,679	(7,342)	1,754,524	\$5.29	(38,838)	187,465	(3,330)	3,890,432	\$20.75	(69,107)
8	1,132,383	(13,254)	3,328,933	\$2.94	(38,964)	484,240	(19,361)	5,044,033	\$10.42	(201,672)
9	434,839	257	4,619,207	\$10.62	2,730	152,514	(2,159)	6,270,088	\$41.11	(88,760)
12	154,384	16,793	682,081	\$4.42	74,193	78,279	8,004	853,476	\$10.90	87,268
13	46,964	(928)	170,519	\$3.63	(3,369)			287		
17	352,820	(13,002)	3,765,608	\$10.67	(138,769)	161,845	(7,417)	5,439,448	\$33.61	(249,278)
18	170,604	(1,102)	477,477	\$2.80	(3,084)	90,815	2,434	630,283	\$6.94	16,893
19	771,783	(5,712)	1,995,172	\$2.59	(14,766)	364,313	(2,198)	2,874,201	\$7.89	(17,341)
20	247,556	(7,475)	556,810	\$2.25	(16,813)	81,281	(1,676)	616,033	\$7.58	(12,702)
21	463,752	(10,927)	1,153,854	\$2.49	(27,187)	244,560	(5,076)	1,644,513	\$6.72	(34,133)
22	208,253	(10,320)	493,914	\$2.37	(24,476)	108,608	(986)	700,040	\$6.45	(6,355)
23	785,170	(18,979)	1,948,245	\$2.48	(47,093)	366,607	(9,506)	2,796,109	\$7.63	(72,502)
24	96,918	(7)	321,658	\$3.32	(23)	55,628	(408)	483,857	\$8.70	(3,549)
25	218,417	(6,856)	717,970	\$3.29	(22,537)	88,085	(909)	820,120	\$9.31	(8,463)
26	87,441	(2,025)	254,151	\$2.91	(5,886)	46,642	(129)	382,309	\$8.20	(1,057)
MINOR	7,061,028	(107,500)	28,404,085	\$4.02	(432,435)	3,324,134	(59,404)	41,418,486	\$12.46	(740,170)
					(2,052,302)					(2,015,176)
										TOTAL LOSS, ROUTE GROUP BASIS
										TOTAL LOSS, WHOLE SYSTEM BASIS
	19,919,098	(250,879)	178,608,619	\$8.97	(2,249,557)	8,769,217	(92,578)	292,632,785	\$33.37	(3,089,370)