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# BC Ferries in Need of a Future

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Sometimes it is instructive to look to history for lessons learned. Past situations are never exactly parallel to a current one but close enough to allow the fundamental findings from the past to have application.

Canadian transportation needs in the first half of the last century were well served by the railways. Services offered were varied and worked fine until the other modes of transport began to mature. In the second half of the century it became accepted wisdom that the railways were less and less suited to the provision of passenger and small parcel transport. As well, spur lines were decommissioned in recognition that truck transport could do the work better and were less costly. By the end of the century the railways had greatly simplified their operations and by doing so achieved excellent economies of operations.

Also during the first half of last century, the Government of Canada owned, operated and financed all Canadian airports. A large work force was employed to develop plans for these airports that were diverse geographically and in scale. For example the capital requirements for the Castlegar airport would be listed alongside those for Calgary. The list for all airports in Canada was 10 years long and needed Treasury Board approval. During this process there understandably were contributions by politicians. The design of this process produced several seriously bad investment decisions such as building new international airports for Edmonton, Montreal and almost one for Toronto. Demand exaggerations together with political influences fueled these mistakes. The Federal Government finally understood that this concentration of the planning and financing authority was not the best practice and so set about devolving the country's airports to community based Commissions. The task of managing and financing airports then became the direct responsibility of the communities themselves. Common sense then prevailed as people were faced with spending their own money.

Alongside these transport developments operators began to better appreciate the financial benefits of equipment standardization. Were they to fully embrace the idea of standardization they could enjoy large savings in the costs of maintenance, spares inventory and the labor force. The crewing needs of Air Canada, on a per aircraft basis in the 1990s, was about 12 crew sets. By comparison, Southwest

Airlines boasted a manning level of about 6 crew sets per aircraft. The more successful operators also understood the benefit derived from maximization of capital deployment. To be efficient, capital intensive industries must maximize equipment deployment in a given period of time. The calendar dictates what is of greatest importance when the scale of the investment is comparatively large. Labor and consumables are of lesser importance.

Following its formal birthing in 2003 BC Ferries was tasked to operate a diverse array of vessels and routes on behalf of the people of British Columbia. This is the description of a “legacy” carrier in its most pejorative sense. By this service design the Corporation continued as a provider of an inefficient transport system. Coming on the heels of the “Fast Cat” mal-investment the financial resources available to the Board and Management were inadequate. The average vessel age was high and terminals were inappropriate or in disrepair. For fiscal 2003/04 the Corporation showed an equity amount of $97 million which translated into the high debt to equity ratio of 5.5 to 1. This meager and inadequate equity level was a hurdle to vessel and terminal investments. Making matters more difficult was the Government’s fixing of the supporting funding amount for minor route operations.

To overcome this equity handicap there was only one option and that was to aggressively increase fares. By this method the Corporation increased revenues enough to sort of support increased borrowing and investing. In Fiscal 2003/04 gross revenues totaled $533.731 million and the Corporation reported transporting 21.4 million passengers and 8.4 million vehicles. Over the course of the next seven years passenger volumes remained frozen at the 21 million levels while vehicle volumes held constant at about 8.5 million up to fiscal 2007/08 but started falling off the next year. Total revenues increased each year only as a result of fare increases, not from increased business. By fiscal 2010/11 revenues had risen about 39% from the 2003/04 level but still are inadequate to meet the needs of the expanded investment/debt.

Total assets increased from $630 million in 2003/04 to $1.858 billion in 2010/11. Liabilities also increased by a nearly 300% in parallel with assets. The best debt to equity ratio occurred in 2007/08 with a value of 3.35 to 1. After that brief period of an improved balance sheet condition it began a steady slide to 5.15 to 1 by fiscal 2010/11. With total liabilities reported as $1.549 billion the Corporation, and by extension its customers, is at risk to rising interest rates the Federal Finance Minister regularly warns us of.

Transportation investment priorities for the government have been elsewhere. The needs of the Lower-Mainland are great so it is understandable that BC Ferries customers have been set the task of looking after themselves. Adding new equity to the Corporation, as it tries to overcome the investment deficits of past decades, has not been made. Having the cost of catching up fall exclusively on to the direct users has worked for a while but customer capacity to pay has been in decline. As the present pricing and traffic vectors look to continue unchanged the Corporation will continue to cannibalize its slim equity base if nothing substantive is done.

As matters now stand users are facing the prospect of the ferry service provider struggling to stay solvent with its only recourse being ever higher fares. This is not a stable or lasting condition. The following are suggestions that could play a part in finding a more lasting solution to this deteriorating condition.

1. Remove all short-haul local routes from the Corporation. They are operationally and economically incompatible alongside the C and Super C Class vessels and routes. The short-haul routes would be better operated inside the Highways Department or possibly assigned to local community ferry Commissions.

2. Secure temporary Provincial financial support sufficient to allow rates to be frozen while the Corporation is overhauled as suggested in (1).

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Member of the Gabriola Island Ferry Advisory Committee.

1. BC Ferries Financial and Traffic Records; Fiscal 03/04 ----10/11

| Item | F03/04 | F04/05 | F05/06 | F06/07 |
|---|---|---|---|---|
| Total Assets (M$) | 630 | --- | ---- | ---- |
| Total Liabilities (M$) | 533 | --- | --- | --- |
| Shareholders Equity | 97 | --- | --- | --- |

| | | | | |
|---|---|---|---|---|
| Debt to Equity Ratio | 6.49/1 | | | |
| Gross Revenue (M$) | 533.731 | | | |
| Total Expense (M$) | 482 | --- | ---- | ---- |
| Net Profit (M$) | 51.731 | | | |
| Administration (M$) | 70 | --- | --- | --- |
| Admin/% of Total | 14.5 | --- | --- | --- |
| Interest Expense (M) | 22.672 | | | |
| Total Passengers (M) | 21.4 | 22.03 | 21.7 | 21.7 |
| Total Vehicles (M) | 8.4 | 8.6 | 8.5 | 8.5 |
| Total Assets/vehicle | $75K | --- | --- | --- |

# Interest in 01/02 = 1.752 M
02/03 = 1.364 M

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2. BC Ferries Financial and Traffic Records: Fiscal 03/04 --- 10/11

| Item | F07/08 | F08/09 | F09/10 | F10/11 |
|---|---|---|---|---|
| Total Assets (M$) | 1,215 | 1,551 | 1,807 | 1,858 |
| Total Liabilities (M$) | 936.7 | 1,239.9 | 1,496 | 1,548.8 |
| Shareholders Equity (M$) | 279.8 | 310.6 | 310.9 | 300.7 |

| | | | | |
|---|---|---|---|---|
| Debt to Equity Ratio | 3.35/1 | 3.99/1 | 4.81/1 | 5.15/1 |
| Gross Revenue (M$) | 640.7 | 681.8 | 732.3 | 739.27 |
| Total Expense (M$) | 528.4 | 569.6 | 660.0 | 672.15 |
| Net Profit (M$) | 112.3 | 112.2 | 72.3 | 67.12 |
| Administration (M$) | 50.6 | 49.62 | 30.12 | 31.17 |
| Admin/% of Total | 9.5 | 8.7 | 4.6 | 4.6 |
| Interest Expense (M$) | 33.127 | 50.111 | 76.638 | 72.173 |
| Total Passengers (M) | 21.8 | 20.7 | 21.0 | 20.7 |
| Total Vehicles (M) | 8.579 | 8.130 | 8.255 | 8.119 |
| Total Assets/Vehicle | $141.6 | $190.8 | $219K | $228.8K |

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