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Island Tides
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Reprint from Volume 16 Number 1 January 29, 2004

Government strips BCFS assets ~ Patrick Brown

In the course of 'privatizing' the BC Ferry Corporation into BC Ferry Services Inc., the provincial government stripped some three-quarters of a billion dollars in assets out of the company, leaving it facing an uncertain financial future. Over the next five years, BCFS has plans to spend some $768 million on new ships and terminals, yet it starts life inadequately capitalized and owing $428 million to the government.

BC Ferry Corporation's Financial Health

The previous Crown Corporation had some $636 million in assets, and a small accumulated deficit of $40 million (entirely due to the final write-offs on the sale of the fast ferries). It also had guaranteed financing of $.015/litre of the provincial gasoline tax.

This financial health was the result of a 1999 restructuring which the NDP government undertook following the recommendations of a volunteer stakeholder committee. Without the fast ferry write-offs, BC Ferry Corporation would have recorded a small surplus in each of the past three years.

The net government equity in the company was some $503 million.

BC Ferry Services Inc.'s Financial Problem

When it started last April, the new company was forced by the provincial government to exchange its real estate holdings, mainly the terminals, their buildings, and berth structures, for a 60 year lease from the BC Transportation Finance Authority, and to buy out the government's equity of $503 million in the Crown Corporation.

This leaves the new company with some $568 million in capital assets (including a valuation of some $230 million on the lease) and a mortgage on all assets, payable to the provincial government, for $428 million.

The Government's Financial Gain

In return for the Crown Corporation's real estate holdings, the government gave a promissory note to the company for $330 million. It then took back the note in payment for the 60 year lease. (It is not explained why a lease for which the company paid $330 million is valued at only $230 million on BCFS' pro forma statements.)

The government's equity in the ferry company was reduced from $503 million to $75 million. The government did not receive any cash, but took back the $428 million mortgage.

It will be interesting to see if these payments are needed to 'balance the budget' in the government accounts dated March 31st, 2004. They total $758 million ($330 million for the lease plus $428 million net from the government's equity in the Crown Corporation).

Financing BCFS' Future

The provincial government has capped its subsidy for the coming years at $105 million, calculated on a route by route basis. This is slightly more than the $74 million gas tax subsidy paid in 2002/03 plus the approximately $22 million in annual interest payable (5.33%) on the $428 million mortgage.

Fares are, of course, to go up each year, and the Commissioner can allow additional increases to cover major capital costs. However, even with these, it seems doubtful that there will be sufficient additional income to finance a three-quarter of a billion dollar building program planned to be undertaken over the next five years.

This shortfall is probably the justification for BCFS President Hahn's assertion that a substantial decrease in labour costs is needed so the company can buy new ships. However, the real and fundamental reasons for financing problems are much reduced capitalization combined with a heavy startup debt load.

Not a Good Start

In Bill 18, the *Coastal Ferries Act*, the provincial government has attempted to legislate competition while guaranteeing a return on investment. (The Commissioner of Coastal Ferries has indicated that one of his first tasks will be to work out what that return should be!)

The provincial government's vision for coastal ferries is a fragmented, highly competitive collection of independent operations, with lower wages for employees, fares rising to 100% 'user pay', and the gradual withdrawal of government from any responsibilities or subsidies.

The *Act* also requires that all ferry operators constantly and actively seek subcontractors and low-cost competitors of their own businesses. This is a stupid and totally

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unworkable innovation in a market characterized by natural monopolies.

The government is dreaming in privatization technicolour. It is possible that an extra $758 million on the 2003/04 books may be warping its vision. But the entire elaborate scheme may be doomed from the start, not only by its clumsy attempt to create through legislation a regulated but competitive market, but also by stripping its own startup of the necessary financial resources to succeed.

'This article was published (January 29, 2004) in 'Gulf Islands, Island Tides'. 'Island Tides' is an independent, regional newspaper distributing 15,000–20,000 copies in the Southern Strait of Georgia from Tsawwassen to Victoria, BC.'

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