



CITY OF RICHMOND

REPORT TO COMMITTEE

TO: Public Works and Transportation Committee
FROM: Gordon Chan, P. Eng.
Director, Transportation
RE: **BC Ferries Inquiry**

To PW+T Committee - Oct. 16/01
DATE: October 2, 2001
FILE: 6530-02

STAFF RECOMMENDATION

That the City staff's comments and recommendations on the fast ferry project and the management of BC Ferry Corporation, as presented in the attached report, be endorsed and submitted to the BC Ferries Inquiry for consideration in the preparation of its report for the Ministry of Transportation.

Gordon Chan, P. Eng.
Director, Transportation

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STAFF REPORT

ORIGIN

On August 29, 2001, the provincial Ministry of Transportation initiated an independent review of the fast ferry project and the management of BC Ferries. The BC Ferries Inquiry will examine four main issues within its terms of reference:

- lessons learned from the fast ferry project, including alternate uses for the vessels;
- development of an integrated marine transportation plan;
- service excellence and improved operations; and
- alternative service delivery models.

The City received a letter dated September 24, 2001 from the consultant undertaking the review encouraging Council to provide its views and recommendations on the above issues by October 31, 2001 (Attachment 1). The final report will be submitted to the Minister of Transportation by the end of November.

The submission of the City's views and comments to the inquiry will help ensure that local municipal concerns are recognized and addressed by BC Ferries, particularly for any strategic initiatives of the agency that may impact the local environment. The submission also encourages BC Ferries to include integrated regional ground connections to its ferry terminals as part of its marine transportation strategy. This report discusses the four components of the review and provides comments that are proposed for submission to the review.

ANALYSIS

1. Lessons Learned from Fast Ferry Project

Inquiry Objectives

Two major reviews of the fast ferry project have already been completed: *Review of the Fast Ferry Program* (Hugh Gordon, February 1999) and *A Review of the Fast Ferry Project: Governance and Risk Management* (Office of the Auditor General, October 1999). The current inquiry will review these documents and identify elements and recommendations that can be implemented immediately or incorporated into the corporation's strategic plan with a specific focus on the project management process, financial and risk management practices and governance accountabilities. The inquiry will also solicit public feedback on alternative uses for the three fast ferries and make recommendations on the ultimate use of the vessels.

Staff Comments

Further analysis of the project does not appear warranted as both 1999 reports clearly identify that a recognized project management process that included financial and risk management practices was not used during the planning, implementation and evaluation of the project. Moreover, the Auditor General's report contains recommendations with respect to all three focus areas of this component of the review. These recommendations, noted below, should be put into practice.

- Recommendation 1 – Governance: the Province commit to putting the principles and practices of good governance in place for its Crown corporations including, specifically, allowing Crown corporation boards to function effectively within their mandates.

- Recommendation 2 – Project Management: the Province require that proven project management practices be used on all significant capital projects.
- Recommendation 3 – Framework of Expectations for BC Ferries: the Province give BC Ferries clear, integrated, consistent and long-term direction on its performance expectations and then hold BC Ferries' board and, through it, management responsible for meeting those expectations.

With respect to determining the ultimate use of the fast ferries, the province should undertake a business case analysis of the options using full Multiple Account Evaluation costing principles. Potential options for evaluation include:

- Sell/Lease – the province has been trying without success to sell the three vessels for over one year. Leasing the vessels may be a possibility. The evaluation of these options should include the cost of retaining a selling/leasing agent, storage and maintenance costs, and a discount factor to represent the probability of finalizing a sale or lease agreement.
- Back-up Capacity – the ferries could be used to provide extra capacity in peak periods or back-up capacity when conventional ships are unavailable due to mechanical failure or refit and drydock requirements. Two of the three ferries currently supplement the regular ships on the Horseshoe Bay to Nanaimo route during peak periods, which in turn has decreased the number of vehicles left behind at Horseshoe Bay due to full ferries.
- Re-deploy on Other Routes – it may be feasible to operate the ferries regularly as conventional ships on other routes in BC Ferries' system (i.e., other than on the Horseshoe Bay to Nanaimo route). The ships were specifically designed to fit BC Ferries' existing berths to allow this flexibility.
- Modify for Foot Passenger Use – the car decks of the ferries could be modified to provide a higher passenger capacity and the ships used to support a foot passenger only service. Encouraging increased foot passenger travel, particularly between Vancouver Island and the mainland, could defer the need for greater capital investment in car-carrying ferries.
- Disposal – scrapping the ships is a final possibility, as the cost of keeping them is reportedly \$8 million per year.

2. Development of an Integrated Marine Transportation Plan

Inquiry Objectives

The consultant will make recommendations on the development of an integrated marine transportation plan that addresses the issues of highway equivalency, the needs of ferry dependent communities, BC Ferries' operational efficiency and service objectives, and the need for open and accountable government.

Staff Comments

The development of a comprehensive marine transportation plan should necessarily involve an extensive public consultation process and include the following elements:

- Ground Connections – the plan should not focus solely on waterside and terminal activities. A truly integrated plan must also consider ground connections and transportation to and from the ferry terminals.
- Strategies to Encourage Increased Foot Passenger Traffic – continual growth in vehicle traffic between the mainland and the islands is not sustainable and the plan should include strategies to increase foot passenger travel, including effective transit connections at both ends of the ferry route, in place of vehicle traffic. A higher level of foot passenger travel

could defer future requirements for not only more vehicle ferries but also another mainland terminal.

3. Service Excellence and Improved Operations

Inquiry Objectives

The review will examine the methodologies and assumptions used by BC Ferries in the formulation of its strategic, business and capital plans and recommend any changes to these processes. Specific areas to be considered include:

- assumptions used in determining the need for and location of ferry routes, including the selection and financing of the vessel and route and vessel performance measures;
- forecasting of long-term growth and demand;
- processes to incorporate new entrepreneurial concepts into the agency;
- labour relations and related contractual agreements with reference to best practices in other jurisdictions with similar service delivery models; and
- fare structures with reference to best practices in other jurisdictions.

Staff Comments

The review provides an opportunity to challenge the planning framework of BC Ferries and identify potential operating efficiencies within the agency. Areas for reconsideration include:

- Route Locations – previous studies commissioned by BC Ferries have indicated that Richmond's geographical location makes it an attractive site should a third mainland terminal be required to serve growing demand. The City has serious concerns regarding the impact of a ferry terminal in Richmond including the ability of the local road network to accommodate ferry traffic, the effect of vehicle traffic on communities located along the route to/from the terminal and the environmental impacts associated with the construction and operation of the terminal. For these reasons, the City would not support the location of a third mainland ferry terminal for vehicle traffic in Richmond.
- Vessel Selection and Performance Measures – a business case approach could be used to support the selection and financing of the appropriate vessel while route and vessel performance measures could be drawn from the benchmarks and best practices of other agencies.
- Labour Relations – the inquiry could examine the potential and feasibility of introducing split shifts for ships' crews in order to provide a better match between capacity and demand. For example, BC Ferries has several routes that have significant commuter populations (e.g., Horseshoe Bay – Bowen Island) with travel demand concentrated during the weekday morning and afternoon periods. Split shifts akin to those at Coast Mountain Bus Company whereby a bus operator's total shift is split between the morning and afternoon peak periods would enable fewer ships' personnel during non-peak periods when there are fewer passengers, subject to minimum safety and operating requirements.
- Fares and Reservations – most transportation companies use extensive transportation demand management (TDM) measures such as varying fares (by time of day, by day of week, etc) and reservations to help predict demand and maximize use of their fleet. BC Ferries' lack of control over its fare structure (cabinet approval is required for any changes in fares) limits its ability to implement TDM measures. The review should consider providing BC Ferries with greater independence and the flexibility to introduce new types of pricing to promote off-peak travel and regularly alter fares to find the right balance. Greater use of reservations, perhaps by making them free on major routes with a penalty for no-shows,

would provide greater certainty to both passengers and BC Ferries and enable the corporation to tailor capacity to demand by adding or cutting sailings as required.

4. Alternative Service Delivery Models

Inquiry Objectives

The inquiry will examine the best practices and organizational models of marine and ferry transportation systems in other jurisdictions in order to identify and recommend a preferred service delivery and corporate model for BC Ferries. This component of the review will include the identification of potential public private partnerships (PPP) and alternative forms of capital procurement and service delivery. Specification of the preferred model will include suggestions on infrastructure requirements such as terminals, vessels, maintenance processes and asset ownership.

Staff Comments

This component of the review has the potential to effect fundamental changes in the organization and operation of BC Ferries. Specific areas of examination that could be considered include:

- Public Private Partnerships – BC Ferries currently contracts and/or subsidizes the private operation of a number of routes. There may be opportunities to expand these arrangements to other routes as a means of providing a cost-effective and more responsive customer service. Further PPP opportunities may be available at ferry terminals, most of which are underutilized, have limited customer facilities and are focussed solely on serving waiting passengers. For example, similar to the improved customer facilities added to the Vancouver International Airport, major ferry terminals could include enhanced amenities that capitalize on the inherent scenic waterside location of the terminals, such as restaurants that are accessible by the general public. Such facilities could potentially generate significant revenues while providing enhanced customer service.
- Asset Ownership/Procurement – BC Ferries has typically acquired new vessels by commissioning their construction at provincial shipyards. The review should examine the advantages and disadvantages of leasing versus owning vessels and off-shore versus domestic vessel construction.
- Infrastructure Requirements – given an integrated marine transportation plan that promotes greater foot passenger travel, the preferred model should identify the vessel and terminal facilities required to support this strategy.

FINANCIAL IMPACT

None to the City.

CONCLUSION

The provincial Ministry of Transportation has commissioned an independent inquiry on the fast ferry project and the management of BC Ferries. The inquiry will recommend alternate uses for the fast ferries, how BC Ferries can link with an integrated provincial marine transportation plan, strategies to improve service excellence and operations, and a preferred service delivery and organizational model. The review includes a public consultation process with interested parties encouraged to submit their views and recommendations by October 31, 2001. A final report will be delivered to the ministry at the end of November 2001.

The submission of the City's views and recommendations to the inquiry will help ensure that both the province and BC Ferries engage in a public consultation process and acknowledge local municipal concerns regarding any strategic initiatives that may impact the local or regional environment. Staff have provided comments on each component of the review and propose that these comments be submitted to the BC Ferries Inquiry for consideration in the preparation of its report.



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