



# **STAYING AFLOAT ON RISING TAX DOLLARS: BC FERRIES VS' WSF**

## ***A COMPARATIVE ANALYSIS OF THE BRITISH COLUMBIA FERRY CORPORATION AND WASHINGTON STATE FERRIES***

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British Columbia Chapter**

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BRITISH COLUMBIA FERRY CORPORATION & WASHINGTON STATE FERRIES:  
COMPARATIVE ANALYSIS**

**TABLE OF CONTENTS**

	Page
<b><u>I. EXECUTIVE SUMMARY</u></b> .....	3
<b><u>II. OBJECTIVES &amp; BACKGROUND</u></b> .....	10
1. BC Ferries as a Crown corporation.....	11
2. WSF as a Public State Agency.....	12
3. Historical Background.....	13
3.1 BC Ferries' Historical Background.....	13
3.2 WSF Historical Background.....	14
<b><u>III. ANALYSIS</u></b> .....	16
4. Organizational Structure.....	16
5. Governance Structure.....	19
5.1 WSF Governance Structure.....	19
5.2 BC Ferries' Governance Structure.....	24
6. Accountability Reporting.....	29
6.1 Practices in Other Provinces ... ..	30
6.2 Reforms to Accountability Reporting and Governance Roles within British Columbia's Crown Corporations.....	36
6.3 A Critique of BC Ferries' Performance Plan.....	39
6.4 A Critique of the Ministry of Finance Crown corporation Governance Plan.....	40
7. Value-for-Dollar & Performance.....	41
7.1 WSF Revenue Sources.....	41
7.2 BC Ferries Revenue Sources.....	45
7.3 BCFC & WSF Comparative Performance Analysis.....	47
7.4 Performance Conclusions.....	52
9. Limitations of the Study.....	54
8. Conclusion.....	54
<b><u>III. RECOMMENDATIONS</u></b> .....	56

**TABLES & MODELS/ FRAMEWORKS**

<b>TABLE / MODEL</b>	<b>Page</b>
1. WSF Stakeholders.....	16
2. Employee Structure at WSF.....	17
3. Employee Structure at BC Ferries.....	18
4. System Descriptions of BC Ferries & WSF.....	19
5. WSF Governance Structure.....	20
6. BC Ferries' Governance Structure.....	24
7. BCFC Annual Report & WSF Biennium Report: Table of Contents & Performance Figures.....	31
8. Mapping the Flow of Funds at WSF.....	42
9. WSF Consolidated Financial Statements 1997/99.....	43
10. WSF Subsidy Table.....	44
11. BCFC Subsidy Table.....	46

### **CHARTS & GRAPHS**

<b>CHART / GRAPH</b>	<b>Page</b>
1. WSDOT Organizational Chart.....	13
2. WSF Organizational Chart.....	17
3. BCFC Organizational Chart.....	18
4. WSF – Operating Revenue, Subsidies, and Expenses, 1992-1999.....	45
5. BCFC– Operating Revenue, Subsidies, and Expenses, 1992-2000.....	46
6. WSF – Passengers, Vehicles, and Fare Revenue, 1991-2000.....	47
7. BCFC – Passengers, Vehicles, and Fare Revenue, 1992-2000.....	47
8. WSF & BCFC Tariff Change Comparison Along Primary Route, 1991-1999.	48
9. Comparing Operating Costs & Revenues per Passenger at BCFC & WSF...	48
10. Salary Changes at WSF, 1991-1999.....	49
11. Salary Changes at BCFC, 1992-1998.....	49
12. WSF – Salary Expenditures by Division, 1999.....	50
13. BCFC – Salary Expenditures by Division, 1999.....	50
14. WSF – Operating Expenses and Revenue by Route, 1999.....	51
15. BCFC - Operating Expenses and Revenue by Route, 1999.....	52
16. BCFC – Revenue vs' Total Expenses.....	52

## **EXECUTIVE SUMMARY**

### **Objectives –**

This comparative analysis of BC Ferries and WSF (Washington State Ferries) was sponsored by the Canadian Taxpayers Federation and examines BC Ferries and WSF on the basis of accountability, value-for-dollar and performance. In doing so, this study examines each ferry operator's organizational structure, governance structure, accountability reporting mechanisms, systems/operations, and financing and spending practices.

Based on the information collected on the above subject areas, the formal objectives of the study are as follows:

1. To examine the current state of accountability arrangements at BC Ferries and WSF, giving special attention to those variations between each organization (internally and externally) which could have an impact upon accountability and performance.
2. To recommend ways BC Ferries can enhance its accountability through changes to its governance structure and/or accountability reporting practices.
3. To recommend ways BC Ferries can change its operational practices in order to enhance performance and increase their value-for-dollar.

In addressing the above objectives, the study also examines accountability initiatives within other provinces, as well as recent legislative reforms to accountability reporting practices in British Columbia.

### **Summary of Method –**

The issues of accountability, performance and value-for-dollar were examined in this study by exploring each organizations' organizational structure, governance regime, quantity and quality of information reporting, and overall performance.

Data collected for the purpose of this study were compiled from BC Ferry and WSF annual reports, biennium reports, capital plans, route reports, salary survey/schedules, performance plans/audits, tariff reviews, corporate plans, consolidated financial statements and provincial Auditor General reviews.

The documents outlined above support both qualitative and quantitative data pertaining to the operations of each ferry organization. In most cases, quantitative data were collected and presented over a ten-year horizon (1990-2000). This historical data comparison accommodates the observation of trends and deviations.

### **Results and Recommendations –**

The primary result of this study has been the discovery of the prevalent lack of review and scrutiny of BC Ferries by those parties external to the organization (namely, the BC Legislature). This lack of review and scrutiny has in turn resulted in an inadequate level of reporting to the legislature by BC Ferries, a lack of objective and tangible performance reporting methods, and a low level of organizational and operational transparency at BC Ferries. Without greater external review and scrutiny, there exists no true incentive for BC Ferries to become a more “accountable” organization.

Other results/ discoveries evolving from this study are as follows:

- The diffuse governance structure of WSF allows for more checks and balances of the organization’s activities and operations by various different bodies/ committees. In particular, the bi-partisan committees that oversee WSF help prevent mismanagement by objectively reviewing WSF activities and operations on a periodic basis. Without a doubt, such bi-partisan committee review of BC Ferries would have prevented the recent PacifiCat “fast ferry” incident from occurring.
- Washington State Legislative committees do not involve themselves in the (micro)-management of WSF operations. Instead, they exist simply to review

WSF activities and operations on behalf of the Legislature. The bi-partisan composition of these committees helps them remain objective and non-biased.

- In practice, the governance structure of BC Ferries places a highly centralized level of power, influence and decision-making authority with the Minister responsible for the corporation and the Cabinet. This highly-centralized distribution of power and authority places the role and prudence of the BC Ferries' Board of Directors into question.
- It is clear that the Washington State Legislature plays a far more active role in the governance of WSF than the BC Legislature does of BC Ferries.
- While the purpose of each organization's annual/ biennium report is the same, the quality of reporting is quite different. For example, BC Ferries' Annual Report outlines very little in the way of useful performance measures (i.e., tariff comparisons, passengers carried, 5 year trends, consolidated financial reports), while WSF's Biennium Report is full of insightful performance measures, such as, passenger figures over the last 5 years, annual ridership per route, ridership statistics per route, passenger fares, walk-on passenger ridership, vehicle ridership, fare distribution, employee statistics by division, level of training per employee, operating performance, flow of funds, consolidated financial reports, projected growth, and system plan highlights.
- No information related to performance auditing, value-for-money analysis, or program/ project review (of BC Ferries) has been produced by either the Auditor General or the Crown Corporation's Secretariat.

**Recommendation #1 –**

- ***Improve the governance regime of BC Ferries by: (1) forming a bi-partisan legislative committee dedicated to Crown corporation review; and (2) eliminating the BC Ferries' Board of Directors.***

The provincial government needs to alter BC Ferries' current governance regime in order to provide for: (1) more objective review and scrutiny of the organization; (2) more involvement of the B.C. legislative assembly into BC Ferry affairs; and (3) clearer decision-making responsibilities.

A bi-partisan legislative committee, with a non-partisan support staff, would greatly improve the involvement and quality of accountability reporting to the B.C. Legislature, as well as help make BC Ferries a more transparent organization to the public.

Activities of the bi-partisan legislative committee on Crown corporations may include, on an ongoing basis, review of each Crown corporation's mandate and statement of purpose, corporate governance frameworks and practices, strategic plans, annual capital expenditure plans, and corporate performance measures. In essence, the committee would provide structured and constant review of BC Ferries' operations and activities.

Given the role (or lack thereof) of the BC Ferries' Board of Directors in the recent PacifiCat "fast ferry" initiative, coupled with its limited background in transportation related issues, one has to question their overall relevancy. With the implementation of a bi-partisan legislative committee on Crown corporations, coupled with an adequate support staff, the role of the Board becomes irrelevant.

Due to the "part-time" nature of the Board in dealing with ferry issues, coupled with the power and authority exercised by the minister responsible, a strong argument can be made regarding the Board's true impact upon ferry operations and activities. BC Ferries, and taxpayers, would benefit more from a bi-partisan legislative committee

that is familiar with Crown corporation activities, dedicates more time to reviewing and scrutinizing corporation affairs, and has a greater degree of political power, autonomy, and authority.

Effective boards in private enterprises have a high degree of decision-making authority. At BC Ferries it is the Minister responsible and the Cabinet, not the board of directors that have the greatest degree of decision-making authority.

## **Recommendation #2 –**

- ***Improve the quality and accessibility of information regarding BC Ferries operations by: (1) separating information presented in BC Ferries' Annual Report into reporting for profitable routes and reporting for non-commercial (subsidized) routes; and (2) report on employee expenditures and toll/ catering revenue on a monthly basis, both aggregate and per route***

In order to give a clear and accurate portrayal of BC Ferries' operations and performance it is necessary to ***separate annual report information into a commercial component for profitable routes, and a public policy/ economic development component for subsidized routes***. This format will allow policy-makers to form accurate assumptions regarding BC Ferries' performance, as well as provide policy-makers with the relevant information required to form decisions regarding whether BC Ferries should pursue public policy initiatives (i.e. operating non-profitable routes, level of subsidy funding).

Reporting for commercial and non-commercial routes would involve financial reporting, as well as any other performance reporting information deemed applicable (i.e. levels of ridership, employee levels). Without clear, separate reporting, internal management will have an excuse for not operating the corporation in a commercially viable manner.

Due to the monthly fluctuations in ridership at BC Ferries, particularly those experienced over the summer months as a result of tourism in British Columbia, an accurate portrayal of operational and financial performance ***must include reporting***

***on employee expenditures and toll/ catering revenue on a monthly basis, both aggregate and per route.*** This method of monthly reporting will allow policy-makers to gauge the appropriate level of service offered by BC Ferries in response to increases/ decreases in monthly ridership.

Monthly reporting should include employee expenditures (including overtime expenditures), toll revenue, catering revenue, and ridership rates. Furthermore, monthly reporting figures should be presented in a fashion which allows for further analysis of route information.

**Recommendation #3 -**

- ***Re-evaluate “appropriate” service levels on smaller, subsidized routes.***

Small, subsidized (non-profitable) routes are placing a financial burden on BC Ferries, even with the 54% increase in fares along commercial routes over the last eight years to assist in financing such smaller routes. The time has come for BC Ferries to re-evaluate the appropriate level of service along non-commercial routes as opposed to heavier reliance upon provincial/ federal subsidy funding and revenues generated from commercial routes.

Appropriate levels of service must be in keeping with the management direction of the corporation as determined by the decision-makers involved in the governance regime. An appropriate level of service may include no service by BC Ferries. This recommendation may necessitate the privatization of current routes. At WSF, for example, internal policy has been to privatize any non-profitable routes, thereby allowing the private market to determine the prudent level of service along such routes.

**Recommendation #4 –**

□ ***Allow private sector to provide ferry service***

With the current increases in subsidy funding and no private sector competition, the performance of BC Ferries, financial and otherwise, can be expected to decrease. By competing with the private sector and/or fully privatizing some of its current routes, BC Ferries would decrease its operational and capital expenses significantly and improve its overall performance.

BC Ferries may integrate the private sector into ferry operations by: (a) offering both private and public ferry service along primary, commercial routes; (b) partially or fully privatizing smaller, subsidized routes; or (c) allowing private sector competition along all non-profitable, subsidized routes.

Maintaining both public and private ferry operations along the primary commercial routes running from Vancouver Island to the mainland would not only offer optimal performance via competition, but would also ensure that access to and from Vancouver Island is always available in the event of a labour strike.

BC Ferries recently announced yet another fare increase for the 2000/ 2001 fiscal year. This new fare increase, couple with the 54% increase in fares over the last 9 years, indicates that alternative ferry service arrangements via the private sector must be utilized.

## **I. OBJECTIVES & BACKGROUND**

Over the last decade a great deal of literature has been written on the topic of accountability within British Columbia Crown corporations. Contributions to the literature on accountability in the British Columbia public service has come from Auditor General, various central agencies, academia, and financial accounting consultants. Yet, despite over a decade's worth of research and recommendations on how government can improve accountability, Crown corporations in British Columbia - in this case - the British Columbia Ferry Corporation, continues to operate with a relatively low level of accountability in comparison to the private sector. The recent PacifiCat "fast ferry" experience serves as an example of what can be expected when one side of the Legislature is in complete control of Crown corporations with little regard for accountability, inadequate accountability reporting and no external review and scrutiny.

This study examines the operational, governance and accountability reporting structures of the British Columbia Ferry Corporation (herein referred to as BC Ferries) and Washington State Ferries (herein referred to as WSF). By comparing and contrasting two, very similar, public enterprises operating under considerably different governing regimes, this study offers alternatives to traditional practices which may in turn increase accountability, enhance performance, and achieve a satisfactory value-for-dollar for taxpayers.

The formal objectives of this study are as follows:

- To examine the current state of accountability arrangements at BC Ferries and WSF, giving special attention to those variations between each organization (internally and externally) which could have an impact upon accountability and performance.
- To recommend ways BC Ferries can enhance its accountability through changes to its governance structure and/or accountability reporting practices.

- To recommend ways BC Ferries can change its operational practices in order to enhance performance and increase their value-for-dollar to the taxpayer.

### **Methodology:**

The issues of accountability, performance and value-for-dollar were examined in this study by exploring each organizations organizational structure, governance regime, quantity and quality of information reporting, and overall performance.

Data collected for the purpose of this study were compiled from BC Ferry and WSF annual reports, biennium reports, capital plans, route reports, salary survey/schedules, performance plans/audits, tariff reviews, corporate plans, consolidated financial statements and provincial Auditor General reports.

The documents outlined above support both qualitative and quantitative data pertaining to the operations of each ferry organization. In most cases, quantitative data were collected and presented over a ten-year horizon (1990-2000). This historical data comparison accommodates the observation of trends and deviations.

### **BC Ferries as a Crown Corporation:**

Crown corporations in British Columbia are separate legal entities, usually created by an act of the Legislature.

Governments establish Crown corporations to pursue public policy goals. Justified with regards to serving the public interest, they are expected to operate in a commercial manner and are provided with a higher degree of autonomy and operating flexibility than the rest of government. They are generally viewed as being appropriate for programs that:

- Focus mainly on a business or commercial interest;
- Generate revenue, varying in amounts up to self-sufficiency;
- Involve large number of transactions with members of the public;
- Require greater flexibility than is available under the ministry model; or

- Require decision-making that is more removed from government than ministries.

The activities of Crown corporations usually reflect a mix of financial and public policy objectives. For example, BC Ferries has an implied set of competing objectives that it has to balance<sup>1</sup>. It is expected to operate in a financially sound manner while at the same time provide ferry service to certain subsidized routes as a public service. While there are profitable routes serviced by BC Ferries it is obvious that its public policy goals forbids it from operating in a strict business manner.

Similarly, Washington State Ferries balances various financial and public policy objectives as well. However, privatization of certain non-profitable routes has allowed Washington State Ferries to curtail the financial burden suffered by satisfying public policy objectives.

#### **Washington State Ferries as a Public State Agency (WSDOT):**

Washington State Ferries (WSF) of the Department of Transportation (DOT) is the nation's largest ferry system. Unlike other agencies within the DOT, the majority of WSF employees (95%) are not considered DOT civil servants. Instead, they are listed as members of separate unions. The Washington State Transportation Commission acts as the board of directors of WSF, as it does for a number of transportation related operations.

There are 19 private ferry operations registered with the Washington Utilities and Transportation Commission. None of the private ferry operations compete directly with WSF.

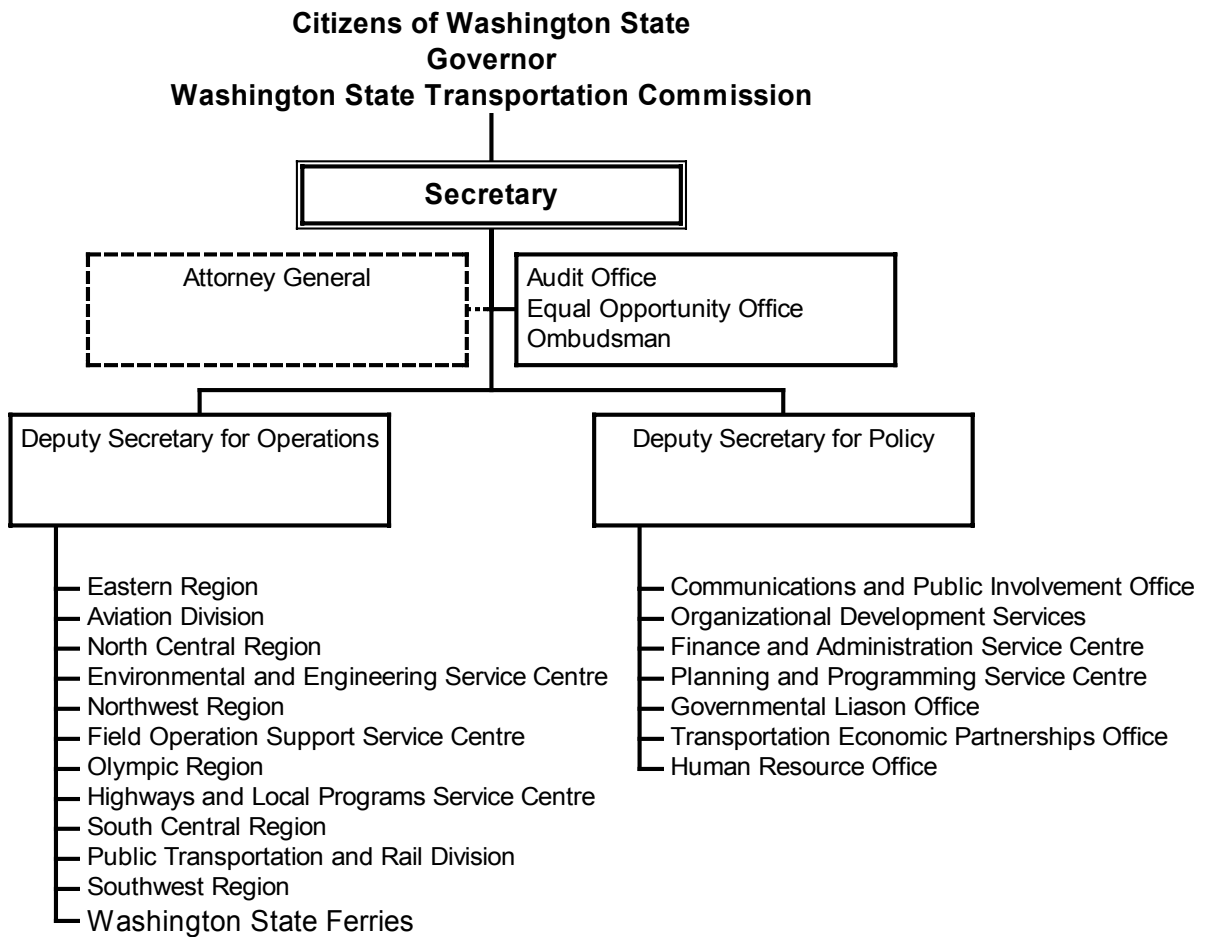
Exhibit #1-1 (located on page 13) outlines the position of WSF within the Washington State Department of Transportation.

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<sup>1</sup> Auditor General of British Columbia, Accountability of Crown corporations to the Legislative Assembly,

**Exhibit 1-1: WSDOT Organizational Chart:**

WASHINGTON STATE DEPARTMENT OF TRANSPORTATION



**HISTORICAL BACKGROUND:**

**British Columbia Ferries –**

BC Ferries is the largest ferry system in Canada. The ferry system is composed of 40 vessels serving up to 46 ports on 26 routes with a staff of 4,750.

Originally, ferry service between the lower mainland and Vancouver Island was provided by private enterprises. Interestingly, one of the first private companies to provide ferry service - Black Ball Line was established by Captain Alexander Peabody, whose family ran the Puget Sound Navigation Company. The same company that would eventually become Washington State Ferries. Canadian Pacific

was the second ferry operator during the early days of ferry service in British Columbia.

By the late 1950s, both companies dealt with three unions. Most of their contracts expired toward the end of 1957 and by mid-1958, problems at the negotiating tables brought marine transportation to a virtual standstill. This event triggered the beginning of government-run ferry operations in British Columbia. After many years as either the BC Ferry Authority or as part of a government ministry, a major portion of the provincial ferry system was given Crown corporation status on January 1, 1977.

Under provisions of the British Columbia Ferry Corporation Act (1977), the BC Ferry Corporation was designated as an “agent of the Crown” and charged with the responsibility to:

*“...establish, operate and maintain a ferry, shipping and related service, including...the ferry system...”*

To enable it to discharge this responsibility, the corporation is given the power under its Act to acquire, charter, and operate ferries, terminals, and other assets and to construct and reconstruct ferries and terminals, as the corporation considers necessary. However, the Act limits the powers of the corporation in several important areas and here the approval of the Lieutenant-Governor in Council (i.e., the Cabinet) must first be obtained before changes are made.<sup>i</sup>

### **Washington State Ferries –**

Washington State Ferries (WSF) is the largest ferry system in the United States, serving eight counties within Washington in addition to the Province of British Columbia. Counties served include Pierce, King, Snohomish, Kitsap, Skagit, Island, San Juan, and Jefferson Counties. The WSF system is composed of 29 vessels serving up to 20 ports on 11 routes with a staff of 1,800 employees.

Ferry service in Washington State was originally a private enterprise operated by the Puget Sound Navigation Company. Increasing labour costs made it increasingly difficult to operate the ferry service in a private manner. In 1951, after numerous discussions with the State Legislature over fares and service, the Puget Sound Navigation Company sold all of its terminal facilities and ferries (with the exception of those on the Seattle, Port Angeles/Victoria, B.C. route) for \$5 million to a newly created Washington Toll Bridge Authority, now known as Washington State Ferries (WSF).

The ferry system was originally intended to provide temporary service until a network of bridges could be built connecting the west and east sides of Puget Sound. In 1959, however, the Legislature rejected the plan to build numerous cross-sound bridges. At that time, the responsibility for managing the ferry system was shared by the Toll Bridge Authority and the State Highway Commission. The Toll Bridge Authority set fares and controlled the system's finances, including long-term indebtedness, while the operation of the ferry system was controlled by the State Highway Commission. In 1977, the two agencies were combined under the existing Washington State Department of Transportation (WSDOT).

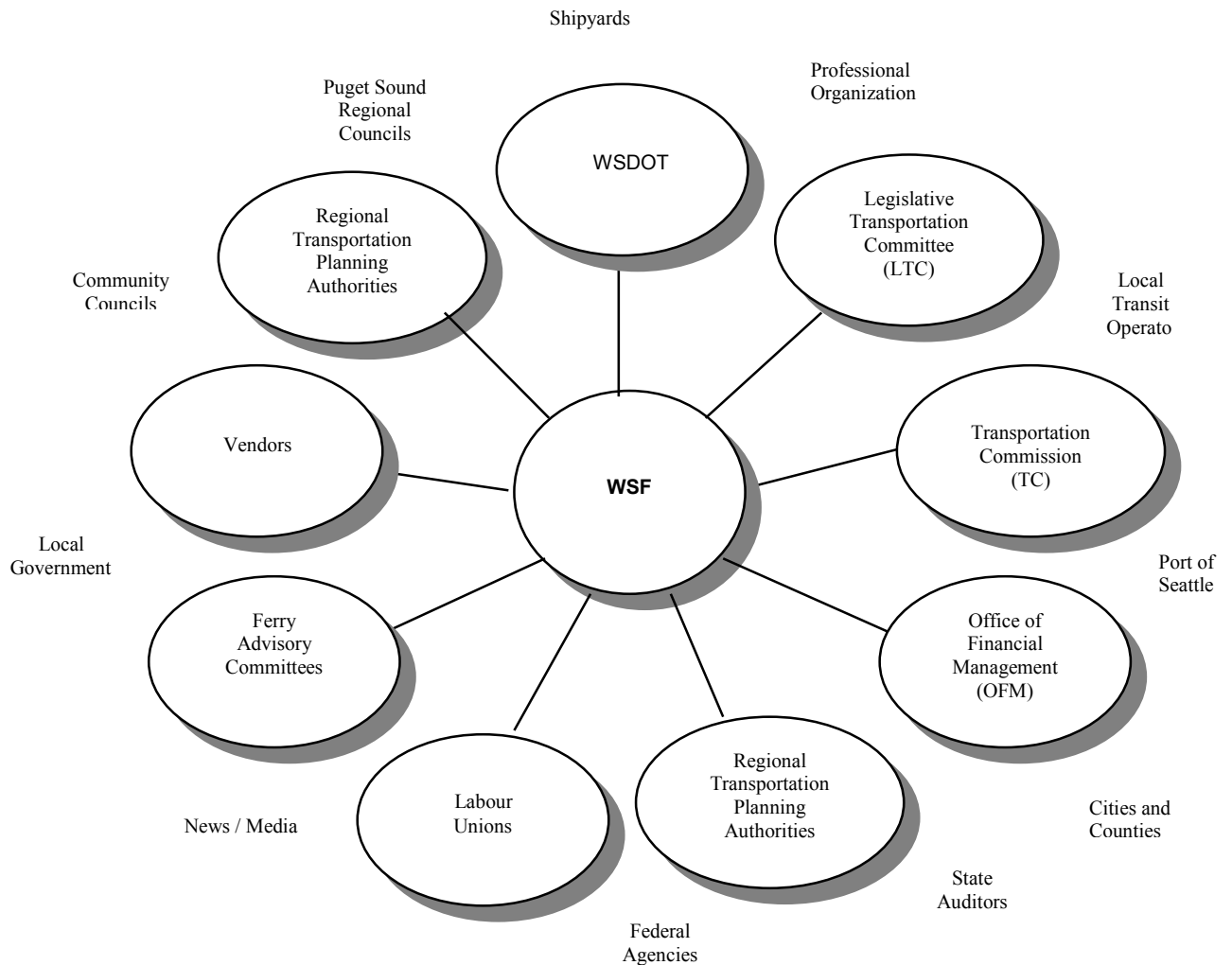
## II. ANALYSIS:

### Organizational Structure:

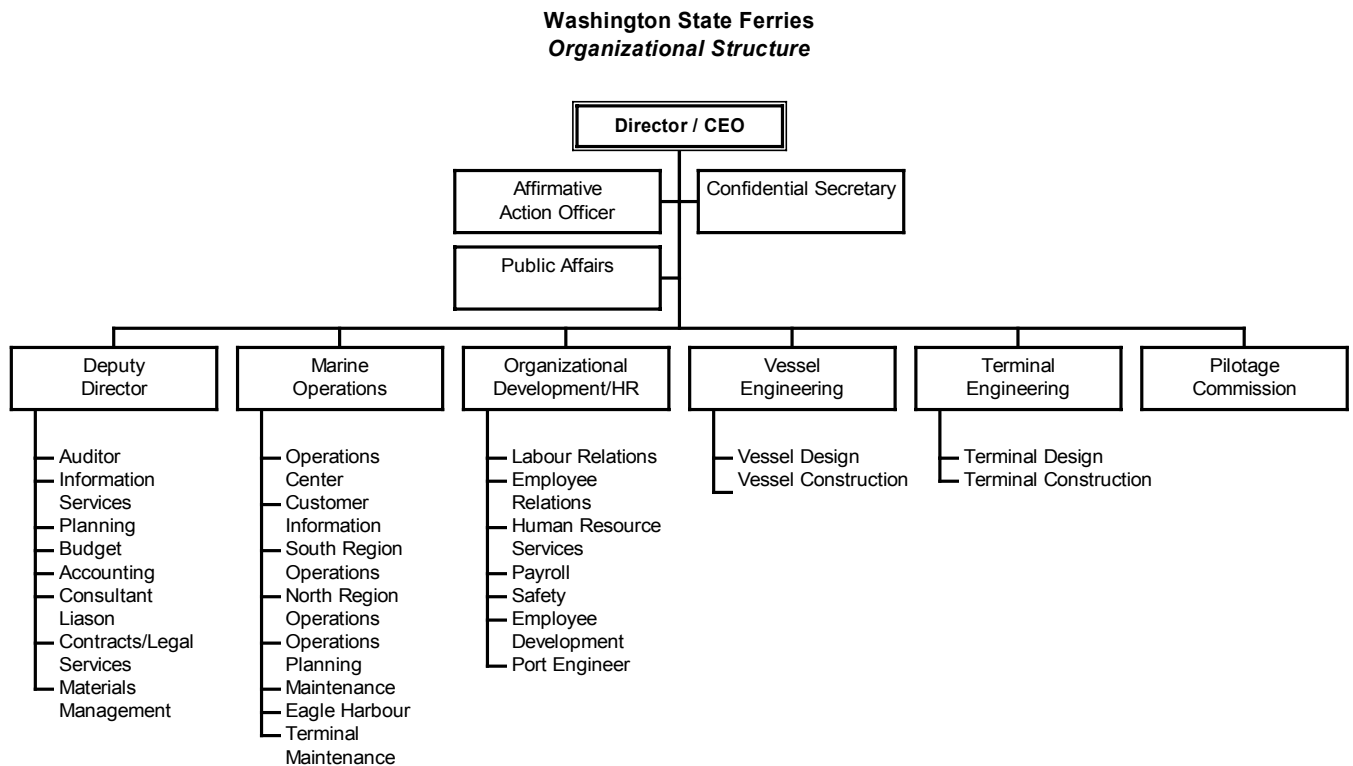
Over 90% of WSF employees belong to one of 12 unions and are covered by one of seven separate collective bargaining agreements. The number of employees in each union ranges from 976 in the Inlandboatmen's Union to eight in the Service Employees International Union. By statute, each of the seven collective bargaining agreements must be re-negotiated every two years.

Exhibit #2-1 (below) outlines the stakeholder identified by WSF.

**Exhibit #2-1  
Washington State Ferry Stakeholders**



**Exhibit #2-2: WSF Organizational Chart**



**EXHIBIT #2-3  
EMPLOYEE STRUCTURE AT WSF**

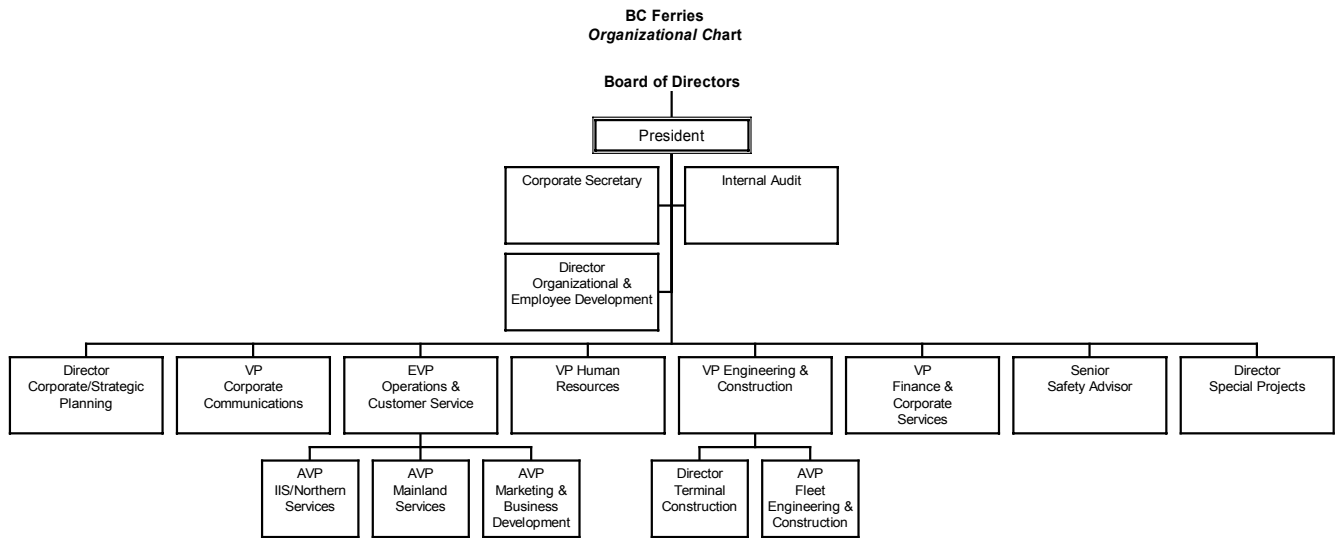
Employee Category	WSF	Percentage of Total Workforce
Deckhands/ Seamen	738	41%
Engineering	205	11%
Trade/ Maintenance	290	16%
Management & Support Staff <sup>2</sup>	207	11%
Terminal	371	21%
<b>Total</b>	<b>1811</b>	<b>100%</b>

(Source: WSF Human Resources, July 2000)

Over 95% of BC Ferries' employees belong to the Marine Workers' Union. The permanent workforce numbers approximately 2,800, and is augmented by approximately 1,800 casual worker. (2000 - Annual Report). Catamaran Ferries International Inc. (CFI), is a wholly-owned subsidiary of BC Ferries. CFI began operations on April 1, 1996, for the purpose of constructing the PacifiCat "fast ferries".

<sup>2</sup> Includes 57 clerical employees (WSF)

**Exhibit #2-4: BC Ferries Organizational Chart**



**Exhibit #2-5  
EMPLOYEE STRUCTURE AT BC FERRIES**

Employee Category	BC Ferries	Percentage of Total Workforce
Catering	1341	28%
Deckhands	893	19%
Engineering	555	12%
Trade/Maintenance	435	9%
Management & Support <sup>3</sup>	678	14%
Terminal	848	18%
<b>Total</b>	<b>4750</b>	<b>100%</b>

(Source: BCFC Human Resource Dept. & Marine Employees Commission, 2000)

<sup>3</sup> Includes: clerical staff 347, admn. staff 84, management & support 247

**Exhibit #2-6****SYSTEM DESCRIPTIONS OF BC FERRIES & WSF**

<b>Category</b>	<b>WSF</b>	<b>BC Ferries</b>
Ownership	<i>Public State Agency (WSDOT)</i>	<i>Public Crown Corporation</i>
Number of Routes	11	29
Fleet Size	29	40
Number of Ferry Classes	12	26
Number of Terminals	20	43
Number of Unionized Employees	1627	4507
Number of Non-unionized Employees	180	247
Number of Regular Employees	1807	2537
Number of Casual Employees	N/A	1970*
Number of Employees (Union & Non-Union)	1807	4754

(Source: WSF Biennium Report, 1997/99 & BCFC Annual Report, 2000)

\* 1,123 casual employees are considered casual/regular, meaning that they work on salary all year, however, they are not entitled to all union benefits.

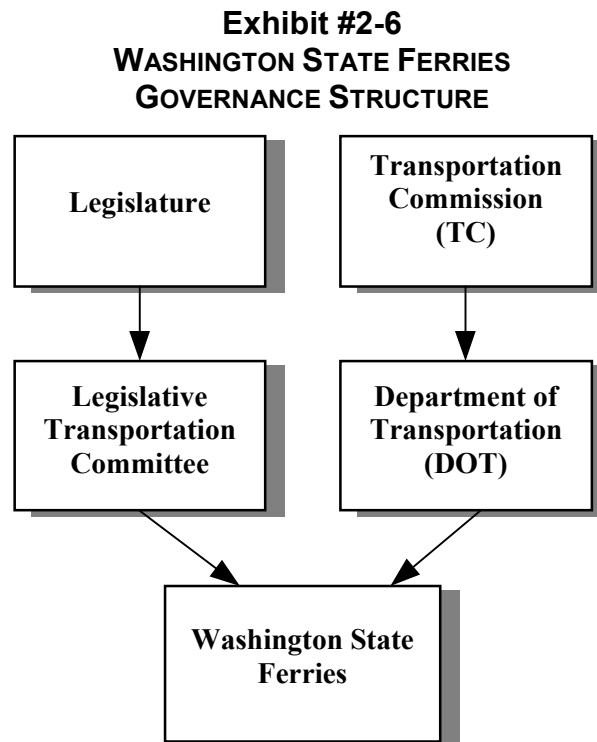
**GOVERNANCE STRUCTURES:**

Simply put “governance” means: the process of decision-making and the process by which decisions are implemented (or not implemented). As such, governance refers to: who is in charge, who sets direction, who makes decisions, who monitors progress, and who is accountable for the performance of the corporation<sup>4</sup>. This analysis of governance at BC Ferries and WSF focuses on the formal and informal actors involved in decision-making and implementing the decisions made and the formal and informal structures that have been set in place to arrive at and implement the decisions.

**WSF - Governance Structure:**

*The primary difference regarding governance at WSF in comparison to BC Ferries is the high level of review and scrutiny of WSF by stakeholders involved in the governance structure. The diffuse governance structure of WSF allows for more checks and balances of the organization by various governance stakeholders.*

The WSF governance structure has been criticized in the past for the continual diversion of management and staff resources to address current issues, thus fostering a more reactive than proactive organization and culture. However, the benefits of WSF governance structure include: a greater level of accountability, clarity and usefulness of information, greater opportunities for expert review and audit by professionals outside WSF. Exhibit #2-6 outlines the governance structure of WSF.



(Source: adopted from WSF Performance Audit, 1998. Pg.8)

As Exhibit #2-6 displays, both the Legislature and the administration have oversight of WSF. The legislature exercises its oversight through the Legislative Transportation Committee (LTC) while the administration supervises through the Transportation Commission (TC) and WSDOT.

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<sup>4</sup> Auditor General's Report, Crown Corporations Governance Study, 1996/97, pg.5

## **Oversight by the Washington State Legislature:**

### ***Legislative Transportation Committee -***

There exist far more opportunities for legislative review at WSF than at BC Ferries. The Legislature exercises a high degree of involvement in the review of performance of WSF through the Legislative Transportation Committee (LTC), Joint Legislative Audit and Review Committee (JLARC), and the Legislative Evaluation and Accountability Program Committee (LEAP).

The Legislative Transportation Committee (LTC) is a twenty-three member, bipartisan committee which monitors and reviews transportation policy and practices in Washington State. In doing so, the LTC carries out structured periodic reviews of individual transportation entities along side the JLARC and LEAP committees.

As a joint, bipartisan committee, membership of the ***Joint Legislative Audit and Review Committee*** consists of eight senators and eight representatives equally divided between the two major political parties. Under the direction of the Legislative Auditor, committee staff conduct performance audits and other kinds of studies aimed at making better use of state resources and public tax dollars. Reports typically include recommendations for significant policy and fiscal changes that would improve the operation of state programs. The Legislative Auditor also has a major role in establishing an effective performance measurement system which relates to implementing performance budgeting in state government.

JLARC recommends action to the legislature and the executive branch, sponsors legislation, and reviews the status of implementation of committee recommendations. Its work is formally incorporated into the legislative process, with recommendations often enacted into law and impacting public policy.

**JLARC Mission Statement -**

The *Joint Legislative Audit and Review Committee* conducts objective performance audits, program evaluations, special studies, and sunset reviews on behalf of the legislature and the citizens of the state of Washington. The committee makes recommendations to the legislature and state agencies that should result in cost savings and/or improved performance in state government.

(Source: WSF Performance Audit, 1998, pg.1)

The **Legislative Evaluation and Accountability Program Committee** (LEAP) was created by the Washington State Legislature in 1977 to be the Legislature's independent source of information for communicating budget decisions, reviewing budget expenditures, consulting with other legislative committees, and providing analysis on special issues in support of legislative needs. The committee is composed of eight senators and eight representatives equally divided between the two major political parties.

Through the use of the legislative committees outlined above, the Washington State Legislature strengthened the effectiveness of its governance role by having such committees provide it with information which is presented in a comprehensive, fair, and meaningful way. This practice has ultimately improved accountability between WSF and the legislature. *It is important to note that the Washington State legislative committees outlined above are not involved in the management of WSF operations. Instead, they simply review WSF activities and operations on behalf of the Legislature.*

The expanded use of legislative committee review in Washington State (namely WSFs), in comparison to the lack of legislative committee review in British Columbia, is shown to have a significant impact upon the improved accountability reporting between public agencies and their legislatures. This is in keeping with a comment found in the 1987 Ontario Provincial Auditor's Annual Report, where it clearly states:

*In general, the path to improved accountability is seen to lie in the establishment of a committee (or committees) with stable*

*membership who can develop expertise in financial issues, with qualified non-partisan research staff, and with sufficient resources to take an in depth look into Government financial plans.*

**Oversight by Government:**

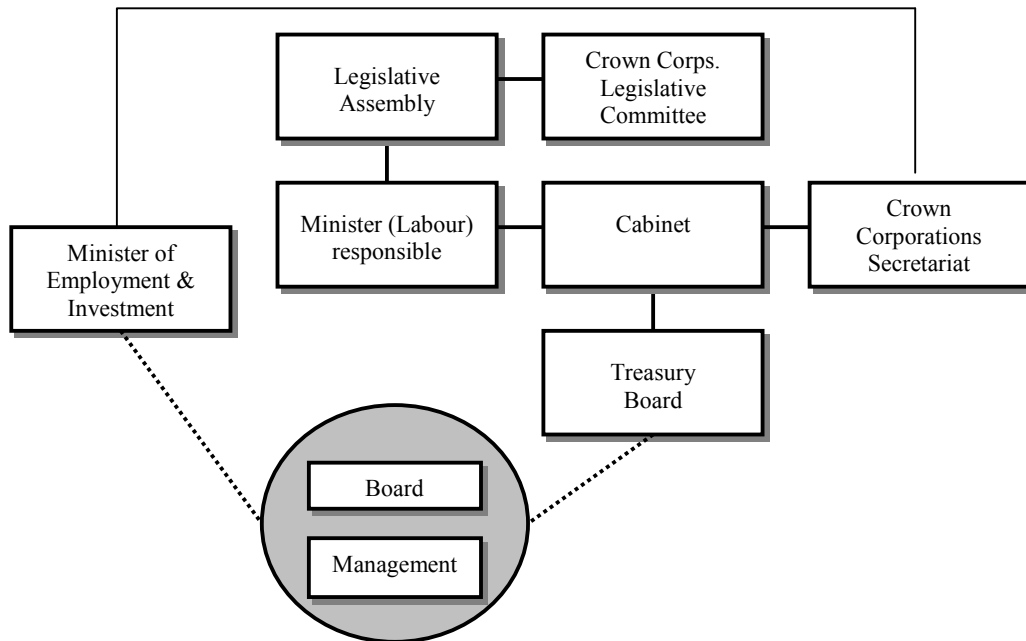
***The Transportation Commission and Washington State Department of Transportation -***

The Transportation Commission (TC) serves as the board of directors of the Department of Transportation, providing oversight to ensure the Department delivers quality transportation facilities and services in a cost-effective manner. The Commission also proposes policies, plans and funding to the legislature which will promote a balanced, multi-modal transportation system which moves people and goods safely and efficiently. The objectives of the Transportation Commission are to protect investments, operate transportation systems, improve safety, provide viable mobility, support the economy, meet environmental responsibilities, cooperate and coordinate with public and private transportation partners, and improve the efficient and effective delivery of programs. The commission consists of eight individuals appointed by the Governor and confirmed by the Senate. Commission members serve six-year terms, and cannot serve more than two consecutive terms. The Governor has to appoint four members from Western Washington, and three members from Eastern Washington. No more than two commissioners can serve from any particular county. No more than four can be from any particular political party (this usually means that four are from one major party and three are from the other major party - no Governor has appointed independents or minor party members to commissioner positions). While any US citizen can become a member of the Transportation Commission memberships are usually chosen according to their background in transportation issues.

**BC Ferries - Governance Structure:**

Currently there is no one source for defining the roles, responsibilities, and accountability of those involved in the governance of Crown corporations in British Columbia.

**Exhibit #2-7 BC FERRIES' GOVERNANCE STRUCTURE**



(Source: Auditor General's Reports on Crown Corporation Governance, pg.40)

Exhibit 2-7 identifies the various government agents involved in the governance of BC Ferries. While it appears that there are several opportunities for oversight by different entities, both with in government and the legislature, the reality is quite different. *In practice, the governance structure of BC Ferries places a highly centralized level of power, influence, and decision-making authority with the Minister responsible for the corporation (the Minister of Labour) and the Cabinet.* The following analysis of the various entities involved in the governance of BC Ferries will illustrate this point.

## Oversight by Government:

### ***The Minister responsible for the corporation –***

The Minister responsible for BC Ferries serves to monitor the corporation on behalf of the Provincial government. As such, the minister responsible for BC Ferries acts as the communications link between the BC Ferries and Cabinet, and as the reporting link to the Legislative Assembly. In exercising his role and responsibilities, the Minister is a key player in establishing and conveying government direction for ferry operations. The Crown Corporations Secretariat planning guidelines identify the role of the Minister responsible as: ensuring directions are communicated; advising the board of directors about government plans; and making recommendations to Cabinet<sup>5</sup>. While enabling legislation defines the minister's role as that of a reporting device between BC Ferries, Cabinet, and Legislature in reality the minister also plays an active role in the management of BC Ferries' affairs. This has never been more evident than in the account of the PacifiCat "fast ferry" fiasco. The Provincial Auditor, in his ***Review of the Fast Ferry Project: Governance and Risk Management***, made special note of the excessive involvement of the then minister responsible in management related activities.

The Minister responsible for BC Ferries has a hand in almost every governance entity identified in the governance structure (see exhibit 3-1). This places the Minister in a position of great influence. Interestingly, there currently exists no clear, well-defined guidelines of accountability between the Minister responsible for the corporation and the various stakeholders identified in the governance structure. Furthermore, there are no guidelines or definitions outlining the exact role the Minister has in effecting or influencing decision-making within Crown corporations. The Minister responsible tables the corporations Annual Report to the Legislature at the end of each year

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<sup>5</sup> Auditor General's Reports on Crown Corporation Governance, pg.30

### ***The Crown Corporations Secretariat -***

The Crown Corporations Secretariat (CCS) is the main central agency for overseeing Crown corporations. Established in 1992 as a “support group” to the Cabinet committee on Crown corporations, it currently reports to the Minister of Employment and Investment<sup>6</sup>. Recently, the Crown Corporations Secretariat assisted in the formation of Strategic Plans and Capital Plans at BC Ferries. In many ways, the Crown Corporations Secretariat plays a similar role to that of the Transportation Legislative Committees used by the Washington State Legislature. *However, rather than reporting to legislature the CCS reports to Cabinet. Secondly, rather than simply reviewing and scrutinizing BC Ferries' operations and activities, the CCS involves itself directly into the management of operations at BC Ferries.* This is evident in recent comments made by the Auditor General in his review of the “fast ferry” project, where he writes:

*“In late March 1994 the Crown Corporations Secretariat was instructed by its minister to take over the completion of BC Ferries' cabinet submission on implementing the Mid-Island Transportation Strategy. The secretariat did so, and also expanded the submission into a cabinet submission on BC Ferries' 10-year capital plan. This marked the end of BC Ferries' development of the capital plan. On April 14, 1994 the minister and a representative from the secretariat presented the capital plan to the BC Ferries board.....*

*.....The final capital plan was significantly different from the draft BC Ferries had prepared. Instead of leasing a fast ferry for trials, the new plan called for bypassing trials and immediately beginning construction of three fast ferries.”<sup>7</sup>*

Judging from previous intrusions of the CCS in the management activities of BC Ferries, it seems evident that the CCS was created to assist the Minister responsible in asserting his/her influence into the micro-management of Crown corporations affairs.

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<sup>6</sup> Auditor General's Reports on Crown Corporation Governance, pg.32

### **Central Agencies -**

Similar to the CCS, the central agencies of Treasury Board, the Office of the Comptroller General, and Treasury Division also act as “support” for Cabinet in Crown corporation governance. As such, these central agencies monitor the preparation of plans and project reports; provide advice and elaboration on government direction to executive and management during plan preparation; and monitor corporate performance against approved plans, investigating significant variances, and submitting reports<sup>8</sup>.

### **Oversight by the British Columbia Legislature:**

There are no legislated provisions establishing an oversight role of BC Ferries by the BC Legislative Assembly. The only information relating to the activities and performance of BC Ferries, offered to the legislature for review, is the corporation's Annual Report. The Auditor General, in his 1990 report on Accountability of Crown Corporations to the Legislative Assembly, identifies the need for more structured, periodic reviews of individual Crown corporations. In response to this comment, the NDP government in the fall of 1999 established a Legislative Assembly Crown Corporations Committee. However, this committee only exists in name. To date, no members have been appointed to the committee, nor is there any formal appointment process or criteria for members. Furthermore, no mandate or objectives have been established for the committee. Judging from the information available on legislative committees in Washington State, and after examining past reports tabled by such committees, *it is clear that the Washington State Legislature plays a far more active role in the governance of Washington State Ferries than that of the British Columbia Legislature does of BC Ferries.*

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<sup>7</sup> Auditor General's Review of the Fast Ferry Project, 1999/00, pg.20

<sup>8</sup> Auditor General's Crown Corporations Governance Study, pg.32

### **Oversight by the Board of Directors:**

While the Transportation Board of Washington State acts as a “super” board of directors for all transportation matters, including WSF, the board of directors for BC Ferries is responsible for only ferry operations. One would assume that having a board responsible for a single transportation entity would result in a far more effective system of governance. However, this has not been the case at BC Ferries. The resignation of board members over the PacifiCat “fast ferry” fiasco serves to illustrate just how ineffective the members of the BC Ferries’ Board of Directors really are, especially when faced with a government known to be unwilling to heed critical advice from directors.

Enabling legislation for Crown corporations makes it clear that it is Cabinet’s role to appoint all directors. In practice, the Minister responsible for the corporation recommends candidates for Cabinet approval. In April 1992, the British Columbia government set up an Appointment Office for Agencies, Boards, and Commissions. Its mandate is to ensure that: ministers have an opportunity to choose the best qualified people; that the appointees represent the communities they serve; and there is a balance of interests on each board. Despite the mandate and function of the Appointment Office for Agencies, Boards, and Commissions a strong argument can be made regarding the lack of skilled and qualified members on BC Ferries’ Board. Of even greater concern is the authority of the minister responsible in banishing board members. The resignation of three board members in the midst of the “fast ferry” debacle illustrates the lack of autonomy of the Board vis-a-vis the minister responsible.

### **Governance Failures at BC Ferries:**

Governance is the system of responsibilities and accountabilities set up to direct, monitor, and report on the carrying out of corporate and government policy<sup>9</sup>. The Act responsible for BC Ferries places the minister responsible (via Cabinet) in the position to direct, monitor, and report on ferry operations. Recent comments made by the Auditor General serve to elaborate on this point.

*“The Act setting up BC Ferries provides for cabinet, not the corporation’s board, to make most key decisions, including approving route additions or deletions, approving fares, tolls and other charges, and approving corporate borrowings. Also, since capital plans need cabinet approval and capital budgets need Treasury Board approval, construction of ferries or terminals is also ultimately a government decision. In short, the corporation does not have control over the most significant decisions that affect its financial and operating performance<sup>10</sup>.”*

Given the lack of review opportunities by the BC legislature, there exists no objective monitoring or review process concerning BC Ferries. The end result of such a failed governance structure, coupled with a lack of objective monitoring and review, was made clear by the events surrounding the recent PacifiCat experience.

### **ACCOUNTABILITY REPORTING:**

Effective information is key to accountability. As such, an organization’s level of accountability may be reflected in its ability to report on its operations and performance in a clear, concise, and effective manner. Secondly, the accessibility of pertinent information to those parties outside the organization helps to establish an open, forthright, and accountable atmosphere. In the end, it is the quality of information reported and the transparency of an organization’s operations and performance via information accessibility and clarity that establishes a truly “*accountable*” organization.

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<sup>9</sup> Auditor General of British Columbia. A Review of the Fast Ferry Project: Governance and Risk Management. 1999/2000, pg. 8

### Internal Reporting –

BC Ferries and WSF use similar techniques to report on their operations and performance. Such reporting methods include: Annual Reports, Biennium Reports, Strategic Plans, Capital/System Plans, Consolidated Financial Reports, Long-range Plans, and Route Reports. The BC Ferry Annual Report and WSF Biennium Report are the two most widely referred to documents pertaining to each organizations operations and performance. *While the purpose of each report is the same, the quality of reporting in each report is quite different.* BC Ferries' Annual Report is filled with philosophical rhetoric with very limited "tangible" performance/operational information. The WSF Biennium Report, on the other hand, tends to focus upon what each division within the WSF organization is doing, what they've accomplished, and how each division plans to proceed in the future. The structure of the WSF Biennium Report not only sheds light on the activities of each division, but the organization as a whole. Exhibit #2-8, outlined on page 29, displays the "table of contents" of BC Ferries' 2000/2001 Annual Report and WSF's 1997/1999 Biennium Report.

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<sup>10</sup> Auditor General of British Columbia. A Review of the Fast Ferry Project: Governance and Risk Management. 1999/2000, pg. 12



## External Reporting –

External reporting may be defined as information produced by entities outside the immediate organization – yet still involved in the governance regime. Such entities collect information through their delegated authority.

At BC Ferries the Provincial Auditor and Crown Corporations Secretariat represent two external entities involved in the production of information regarding BC Ferry operations and performance. The Provincial Auditor reports information for use by the legislature, while the CCS reports for Cabinet. Recent information reported by these two organizations has been concerned with accounting for historic events at BC Ferries, such as the fast ferry program. *No information regarding performance auditing or program/project review has been produced by either organization.* This inaction speaks to the level of information (or rather lack thereof) received by the legislature and Cabinet. Due to the fact that the Minister responsible reports to Cabinet regarding operations at BC Ferries, the primary concern, then, has to be the inadequate level of reporting to the legislature. The situation at WSF is quite the opposite.

Through its various committees, the Washington State Legislature receives valuable, up-to-date information regarding the operations and performance of WSF. Aside from brief interim reports conducted by the Legislative Transportation Committee, Legislative Committees have produced, or have been involved in the production, of the following reports/ studies:

- Department of Transportation Ferry System Performance Audit – by the Joint Legislative Audit and Review Committee, 1997.
- A Review of the Ferry Refurbishment Program – Legislative Transportation Committee, 1991.
- Cross-sound analysis for the Washington State Ferries: Final Report – sponsored by the Legislative Transportation Committee and Transportation Commission, 1988.

- Washington State Ferries Jumbo Vessel Financing Plan – Legislative Transportation Committee & Jumbo Vessels Financing Steering Committee, 1989.

### **Organizational Transparency –**

The ability of an organization to operate in a clear, understandable, open and transparent manner to those from outside the organization, speaks to the organization's level of accountability. An organization's level of transparency can be measured by the ease of access to information by those from outside the organization (i.e., the public) as well as the clarity and usefulness of such information. WSF produces a far wider array of information available to the public upon request, such as: biennium reports, salary schedules/surveys, system/capital plans, risk assessments, and financing plans to name a few. Add to the information outlined above the information produced by the various legislative committees, such as: biennium reports, performance audits, operational reports, and capital reviews. WSF and the legislative committees combine to produce a wealth of information which has been synthesized and disseminated into a format that is easy to read and readily available for anyone who is interested. BC Ferries traditionally relied upon its annual report as the sole source of information readily available and accessible to those from outside the organization. However, in the last year, performance measures and tariff reviews have been included in the list of information produced by BC Ferries for external stakeholders. Still, there remains an abundance of available information pertaining to WSF in comparison to what is available regarding BC Ferries.

Both WSF and BC Ferries have libraries that are open to the public. However, information requested by someone from outside the organization is far more easily accessible at WSF. For example, when researching and collecting information for use in this report, this author was directed on several occasions by staff at BC Ferries to submit Freedom of Information (FOI) requests for information that was made public some time ago. Other, more specific requests for information regarding BC Ferries were simply denied, from this public Crown corporation. Information requested from

WSF never required any type of FOI submission or lengthy waiting period. Due to the abundance and scope of readily available information at WSF, information requests were responded to in a quick and efficient manner. The type of information available at WSF as well as the clear presentation of such information can be attributed to the role of the legislative committees used by Washington State. These legislative committees constantly request information for WSF for use in their own reviews and appraisals of WSF. Due to the authoritative nature of the legislative committees, *information provided to them from WSF is presented in a clear, effective, and easily understandable format. Simply put, the legislative committees act as an incentive for WSF to produce useful, clear, and effective information presented in a readily available format, thus the organization operates in a transparent manner. At BC Ferries no such incentive exists. Only recently in the wake of the PacifiCat "fast ferry" debacle and under harsh criticism does BC Ferries seem willing to produce more useful and readily accessible information.*

### **Accountability Reporting and Review Practices in other Provinces:**

While governments across Canada increasingly resort to performance measures to hold public agencies accountable for results against objectives, little has been done to improve accountability review practices.

In Manitoba, the Crown Corporations Public Review and Accountability Act, 1988, aims to enhance accountability through establishing governing provisions for Corporations subject to the Act. An accountability framework was set out that encompasses the Crown's Boards of Directors, the Ministers responsible, the Manitoba Legislature and the Public Utilities Board. The Crown Corporations Council, established in the Act, champions the accountability framework.

Members of the Crown Corporations Council include - seven members appointed by the Lieutenant Governor in Council; one member who is the Dean of the Faculty of Management of the University of Manitoba or designate from that Faculty; one member is a person nominated by the Institute of Chartered Accountants of

Manitoba; and one member who in the opinion of the Lieutenant Governor in Council, represents organizations of consumers in Manitoba.

Council's role within the accountability framework has been one of facilitating, reviewing, monitoring and providing Government, through Council's Minister responsible, advice on any matter affecting the Crown that may be requested.

Council's activities have included, on an ongoing basis, reviewing each Crown's mandate and statement of purposes, corporate governance frameworks and practices, strategic plans, annual capital expenditure plans and corporate performance measurement.

In 1993, Council incorporated into its activities an assessment of the business risks facing each Crown. Overall, risk is classified as Low, Medium or High with corresponding risk trends of Positive, Stable or Negative based on positive and negative factors identified. This assessment assists in identifying and monitoring the risks and opportunities that may affect a Crown's ability to achieve its objectives and sustain its success.

In Saskatchewan, the Legislative Assembly establishes a Standing Committee on Crown Corporations at the beginning of each Legislature and empowers it to review the annual reports, financial statements and operations of the various Crown Corporations and related agencies.

The committee calls the Minister and the corporation's senior executives before it to answer questions about the year under review and issues of topical concern. The attendance of representatives of the Provincial Auditor's Office and the corporation's private auditors further assist the committee in its deliberations. The committee has a majority of government Members and a government Member as Chair.

The Crown Corporations Committee is one the Assembly's three scrutiny committees (together with the Standing Committee on Public Accounts and the Special

Committee on Regulations) and plays a key role in keeping the government accountable.

### **Reforms to Accountability Reporting and Governance Roles within British Columbia's Crown Corporations:**

In response to comments and recommendations made in the Auditor General's review of the fast ferry project, as well as those from the Budget Process Review Panel (the "Enn's Report"<sup>11</sup>), the BC legislature, on July 7, 2000 passed the Budget Transparency and Accountability Act (BTAA). The BTAA outlines various initiatives intended to reform and strengthen **accountability reporting** at all operating levels of the provincial government (i.e. ministries, crown corporations, central agencies). The BTAA intends to improve accountability reporting by mandating the development of the following plans and reports within every provincial government organization:

- Strategic Plans,
- Performance Plans,
- Major capital project plans, and
- Annual reporting on strategic plan results.

#### *Strategic Planning –*

According to the BTAA, a strategic plan must be presented to the legislature for every government organization. Strategic plans must:

- a) set out the government's priorities,
- b) identify specific objectives and expected results,
- c) provide a fiscal forecast for the government reporting entity for the fiscal year for which the estimates are presented and the following 2 fiscal years, including a description of the major economic and policy assumptions underlying the forecasts, and
- d) any other information that the minister responsible considers appropriate<sup>12</sup>.

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<sup>11</sup> Enn's Report

<sup>12</sup> BTAA, July 7, 2000. Pg.10

*Performance Planning –*

Secondly, according to the BTAA, annual performance plans which address the current fiscal year and the following 2 fiscal years, must be made public by the minister responsible by April 30<sup>th</sup> of each fiscal year. The performance plan must be consistent with the organization's strategic plan and include:

- a) a statement of goals,
- b) specific objectives and performance measures,
- c) information pertaining to any major capital project plan, and
- d) other information the minister responsible considers appropriate<sup>13</sup>.

*Major Capital Project Plans –*

Thirdly, the BTAA requires that major capital project plans be made public at the time of commitment. Eight months after the initial time of commitment, the following capital plan project information must be released:

- a) the objectives of the project,
- b) the costs and benefits for the projects, and
- c) risks associated with those costs and benefits.

*Annual Reporting on Strategic Plan Results*

Lastly, through the minister responsible, the government organization/corporation must make public an annual report that, for the fiscal year of the public accounts, compares actual results of the strategic plan with expected results of the strategic plan for that fiscal year. In doing so, the government organization must compare actual results for the proceeding fiscal year with the expected results identified in the performance plan.

The Ministry of Finance and Corporate Relations recently released a “**Crown Corporation Governance Framework**”. This framework provides guidance on how Crown corporations in British Columbia can articulate the level of control, roles and responsibilities, oversight, and expectations of the various stakeholders and

government agents involved in the governance structure, as well as a method accessing “risks” associated with Crown corporation activities. To accomplish the above, the framework advocates the use a “Shareholder’s Letter of Expectations”. The “letter” attempts to reinforce accountability by formalizing the relationship between the Minister responsible and the Chair of the Board of Directors. According to the framework, the Shareholder’s Letter should clearly outline government expectations and agreed upon oversight between government and the Crown corporation. The key elements of the Shareholder’s Letter of Expectations would include:

- ❑ Explicit confirmation of and support for the mandate of the Crown Corporation.
- ❑ Strategic priorities of Cabinet.
- ❑ Strategic priorities, objectives, deliverables and performance expectations for the Crown corporation.
- ❑ Key requirements for preparing and submitting various plans including performance and/or strategic, business, and financial plans.
- ❑ Key reporting expectations and a clear timetable for receipt and process for review (e.g. financial reports, performance measurement reports, annual reports).
- ❑ Identification of decisions requiring shareholder approval/direction – this is the key tool to differentiate between high, medium and low oversight.
- ❑ Detailed table of roles and responsibilities for all key “governance agents”.

According to the Shareholder’s Letter the level of oversight or independence for each Crown corporation is commensurate with risk. Crowns that mitigate risk and have demonstrated strong management and performance will be subject to lesser levels of oversight. Essentially, the reporting requirements, financial control, mechanisms and level of independence and autonomy of Crowns will be established by categorizing

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<sup>13</sup> IBID

Crowns based on an assessment of their risk/commercial opportunity to the shareholder and their overall impact on the province.

The level of inherent risk assumed by each Crown corporation, based on the nature of their individual activities and operations, is to be graded upon the following categories: economic impacts, social impacts, the income statement, the balance sheet/ capital projects, the corporations profile, and board/ management capacities. Appendix 1 outlines the methodology of grading risk in each category mentioned above.

### **A Critique of BC Ferries' Performance Plan –**

As part of BC Ferries' renewed commitment to accountability via performance reporting, a 2000/01 Performance Plan has been created. Eventually, this Performance Plan will be worked into a larger, more comprehensive three-year plan to meet the requirements of the BTAA.

Performance measures included in the Plan are divided into six categories: productivity measures, safety measures, financial measures, human resource measures, customer service measures, and public satisfaction measures. Appendix #3 (pg. 37) describes each performance measure in greater detail. The government and the minister responsible review the Performance Plan prior to Board approval.

The measures outlined in the 2000/02 Performance Plan, designed by BC Ferries, are acceptable and should strengthen accountability within the organization. *However, performance measures are only one component to effective accountability.* If there exists no objective body / committee (external to BC Ferry operations and activities) to review and scrutinize the performance measures, such measures can easily become ineffective. It is hard to believe that the performance measures outlined in the 2000/02 Performance Plan have not already existed for years for internal management at BC Ferries, as they would seem to be part of any effective management information system.

Reporting on performance measures in a public manner through a Performance Plan will add to the organizational transparency of BC Ferries. However, without periodic and structured scrutiny of performance measurement methods and results by a neutral and objective committee, the success of such performance reporting is in jeopardy.

**A Critique of the Ministry of Finance “Crown Corporations Governance Framework” -**

The Ministry of Finance Governance Framework (Appendix #1) provides a grading methodology for assessing the “level of risk” inherent with Crown corporation activities. The level of risk for each Crown corporation translates into a high, medium, or low level of oversight by those government agents involved in the governance structure. Lastly, the framework describes the oversight roles and responsibilities by each government agent (Appendix #2).

The Governance Framework seems to restate the current governance status quo. While the framework may serve as an effective orientation tool for board members and ministers it makes no attempt to fix an ineffective governance structure. *The current governance structure is ineffective because it places such a high level of centralized decision-making, authority, and review with the minister responsible.* The Board of Directors are supposed to act as a check and balance for the minister responsible, but given that board members are chosen by the minister responsible and are often briefed by the minister, one has to question their authority and objectivity in reviewing and assessing ferry operations.

## **VALUE-FOR-DOLLAR & PERFORMANCE:**

### **WSF Revenue Sources -**

WSF's revenue sources, including federal funding, state funding, bond sales, and fares, are strictly regulated. WSF's operating and maintenance expenses are financed through the Marine Operating Account. This account is funded by WSF fares and other WSF revenues, as well as the Puget Sound Ferry Operating Account, which includes revenues from the motor fuel tax, motor vehicle registration fees, combined licensing fees, the motor vehicle excise tax<sup>14</sup>, and other miscellaneous revenue sources.

WSF's capital costs and bond debts are financed separately from operating expenses and are paid for entirely by revenues generated from subsidies. The Puget Sound Capital Construction Account includes revenues generated by the motor fuel tax, motor vehicle excise tax, federal grants, local funds, and bond proceeds. This account is used to pay for emergency repairs to and construction of vessels and terminals. Additionally, funds flow through the Puget Sound Capital Construction Account, which pays principal and interest on ferry construction bonds. Exhibit #2-9 outlines the flow of funds at WSFs in greater detail.

The Passenger Ferry Account was created by the state legislature in 1995 for funding projects that benefit Passenger-Only ferry service. Until recently, this account was funded through the special motor vehicle excise tax that municipalities may impose for public transportation systems. In counties with a population over 175,000 that do not have an interstate highway within their borders, a portion (4.5%) of that special tax collected by municipalities was deposited to the Passenger Ferry Account. This account was used to fund passenger ferry projects such as pedestrian and transit facilities at ferry terminals and the construction of Passenger-Only ferries.

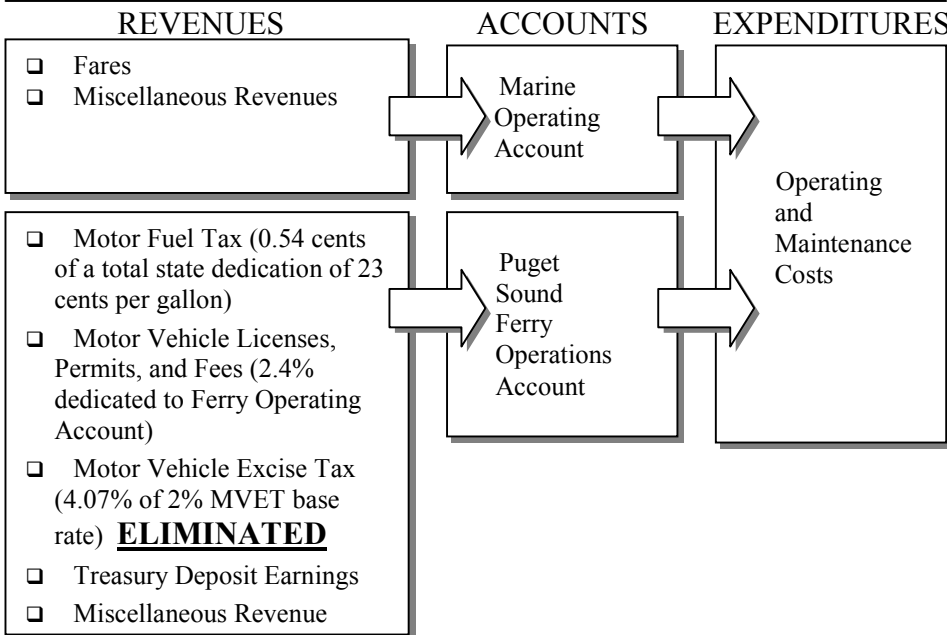
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<sup>14</sup> Voters recently eliminated the motor vehicle excise tax (citizen's initiative 695). As a result, the ferry fleet lost almost half of its operating budget - \$22 million – and its entire capital budget for new vessels and maintenance (\$163 million over 2 years).

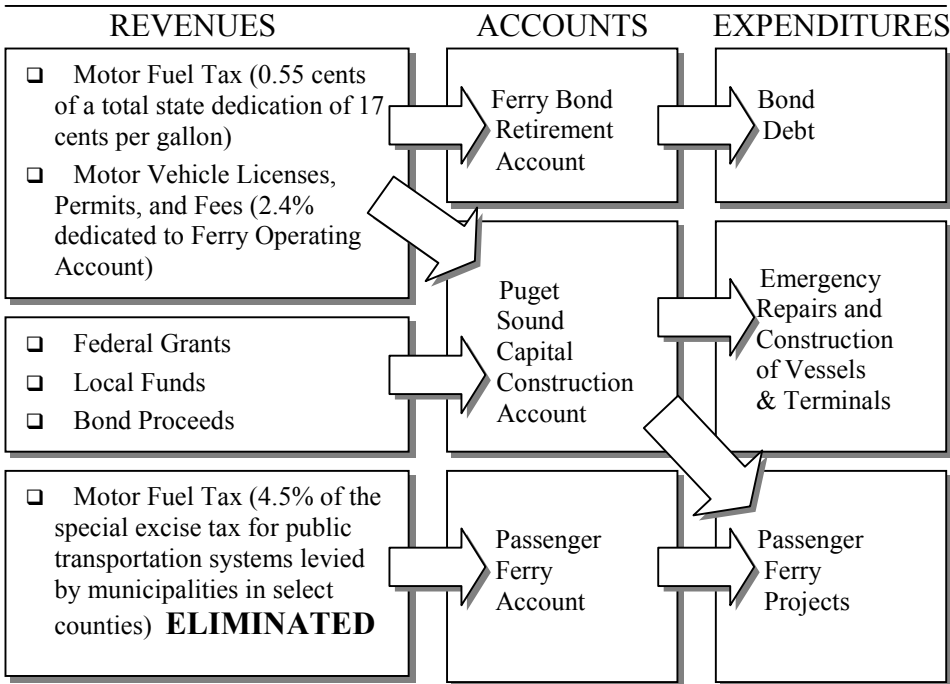
**Exhibit #2-9**

**Mapping the Flow of Funds at WSF** (Source: WSF Biennium Report, 1997/99)

Operating Program



Capital Construction Program



**Exhibit #3-0****WSF Consolidate Financial Statement 1997/1999****Operating Program – 1999**

	Fiscal Year 1999 (\$000s US Dollars)
<b>Revenue</b>	
Fares	90,500
State Motor Vehicle Excise Tax *	31,110
State Motor Fuel Tax	16,590
Vehicle License Fees	5,992
Treasury Deposit Fees	5,763
Other Income	957
<b>Total Operating Revenue</b>	<b>150,912</b>
<b>Expenses</b>	
Operations	105,209
Maintenance	23,930
Management and Support	7,171
<b>Total Operating Expenses</b>	<b>136,310</b>

**Capital Program – 1997/99 Biennium**

	1997/99 (\$000s)
<b>Revenue</b>	
State Fuel Tax	33,310
State Motor Vehicle Excise Taxes *	120,337
Bonds	73,278
Federal Funds	21,462
Private/Local	765
Miscellaneous	4,053
<b>1997/99 Capital Program Revenue</b>	<b>253,205</b>
1995/97 Cash Carryforward	15,118
Fund Balance Adjustments	128
<b>Total Biennium Capital Funds Available</b>	<b>268,451</b>
<b>Expenses</b>	
Emergency Repair	6,091
Terminals	61,932
Vessels	147,683
Debt Service and WSDOT Overhead	51,002
<b>Total Biennium Capital Expenditures</b>	<b>266,708</b>

(Source: WSF Biennium Report, 1997/99)

\* In November 1999, the State Motor Vehicle Excise Tax was eliminated

In November 1998, Washington State voters approved Referendum 49, which reallocated motor vehicle excise tax (MVET) funds from the State's General Fund to finance transportation improvements by authorizing up to \$1.9 billion in bonds for

State and local highway projects. The Legislature was expected to allocate \$200 million of these funds to WSF between 1999 and 2005 to expand WSF's passenger-only program to meet future service needs and to preserve WSF's aging terminals. About 68% of the Referendum 49 appropriation was designated to expand WSF's passenger-only service (\$136 million), while the remaining 32% was designated for terminal preservation (\$64 million).

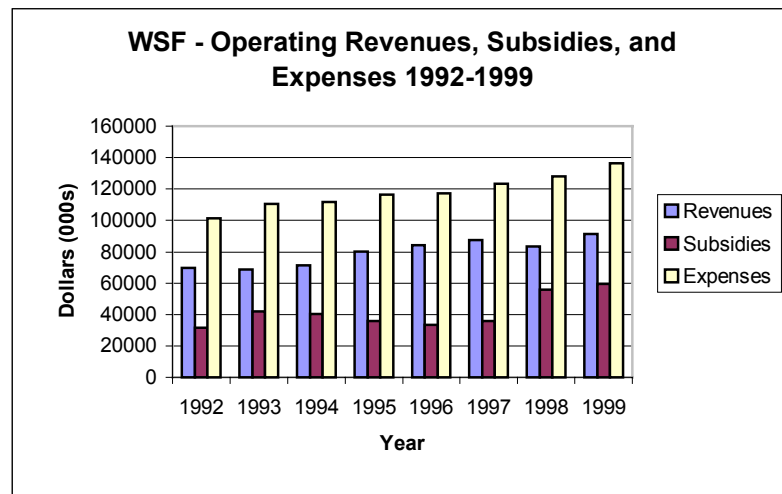
However, in November 1999 citizens' Initiative 695 was approved, which reduced MVET to a flat \$30 fee, Referendum 49 eliminated the debt funding. This initiative eliminated the funding for passenger-only service expansion and WSF terminal preservation. I-695 has also eliminated MVET funds dedicated to WSF's Operating and Capital Programs. This funding accounted for 21% (\$31,110,000) of WSF's Operating Program and 48% (\$120,337,000) of WSF's Capital Program in 1997/99 (see Exhibit #3-0, pg.39).

From 1992 through to 2000 WSF received a total of \$1,173,228,000 (\$1,858,255,760 CAN\$) in local, state, and federal subsidies.

**Exhibit # 3-1**

**WSF's Subsidies , 1992-1999**

<b>YEAR</b>	<b>DIRECT OPERATING SUBSIDIES (000s)</b>	<b>YEAR</b>	<b>DIRECT CAPITAL SUBSIDIES (000s)</b>
1992	31,422	1991/93	114,801
1993	41,902	1993/95	140,141
1994	40,294	1995/97	268,628
1995	36,064	1997/99	253,205
1996	33,413		
1997	35,998		
1998	56,428		
1999	60,412		
2000 CTF Projected	60,500		
<b>Sub-total</b>	<b>\$396,453,000</b>	<b>Sub-total</b>	<b>\$776,775,000</b>
<b>Total (operating+capital) = (US\$)\$1,173,228,000 (CAN\$ .67% EXG) \$1,858,255,760 (yr.2000 US\$)</b>			



**BC Ferries' Revenue Sources –**

BC Ferries collects revenue via tariffs, catering goods, and federal/ provincial subsidies. From 1992 through to 2000, BC Ferries collected \$1,456,866,000 in direct subsidies, this figure includes the \$1,075,548,000 spent by the Province to write off the PacifiCat “fast ferries” and BCFC debt. Traditionally, BC Ferries lists subsidy revenue as operating revenue and applies this revenue to cover any annual operating loss excluding depreciating less net financing income and long term debt and capital lease repayments (see Exhibit #3-2).

Recently, BC Ferries introduced the dedication of a permanent annual subsidy of 1.25 cents per litre from the motor fuel tax. Since 1999, the motor fuel tax has contributed \$64.9 million to BC Ferries' operating account. An interesting contrast between BC Ferries and WSF is how WSF's funding via the motor fuel excise tax has recently been eliminated by a citizen's referendum, while BC Ferries is just beginning to receive such a tax.

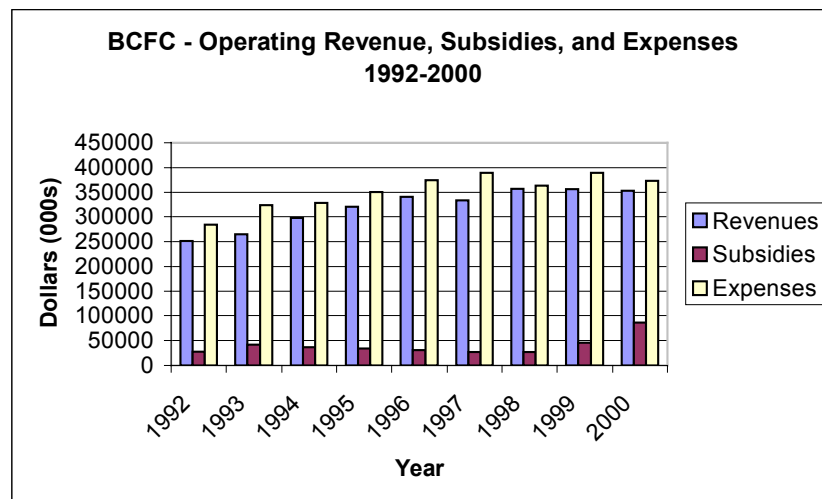
**Exhibit #3-2:**

**BCFC Subsidies, 1992-2000**

<b>YEAR</b>	<b>DIRECT OPERATING SUBSIDIES (000s)</b>	<b>DIRECT CAPITAL SUBSIDIES (000s)</b>
1992	28,100	22,900
1993	41,300	1,800
1994	36,300	
1995	34,000	
1996	30,674	
1997	26,500	
1998	26,631	
1999	46,000	
2000 *	87,113	
	1,075,548	
<b>Sub-totals</b>	<b>\$1,432,166,000</b>	<b>\$24,700,000</b>
<b>Total (operating+capital) = (CAN\$) \$1,456,866,000</b>		

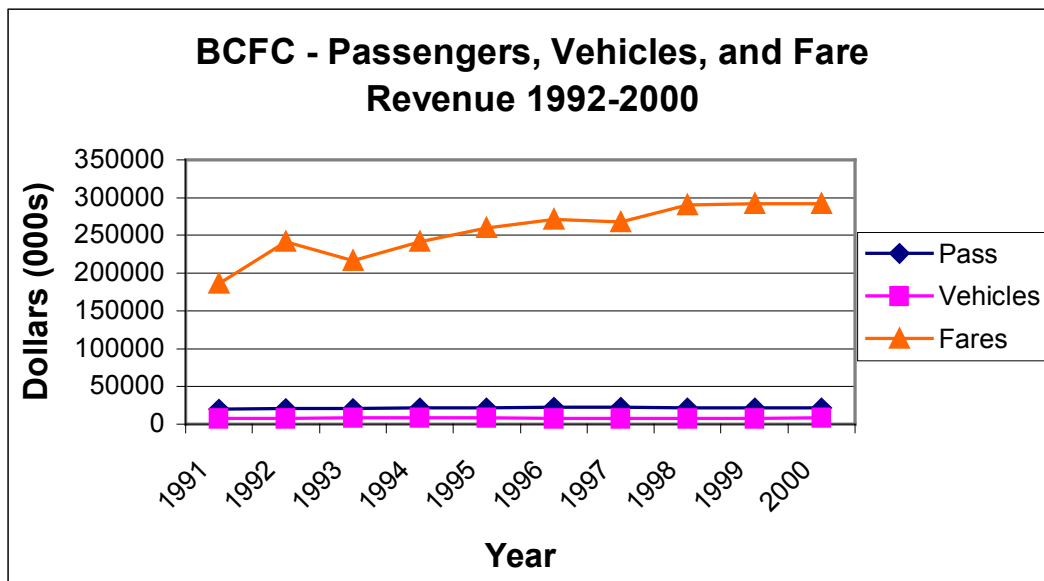
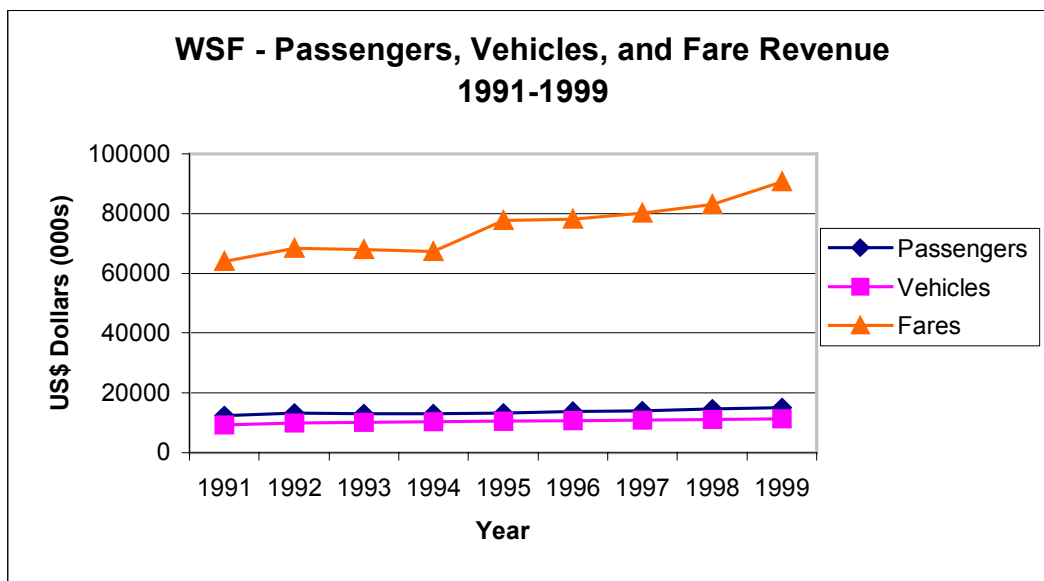
\* The BC Provincial government spent an additional \$1.075 billion in fiscal year 2000/01 to write of the PacifiCat fast ferries expense and BCFC outstanding debt.

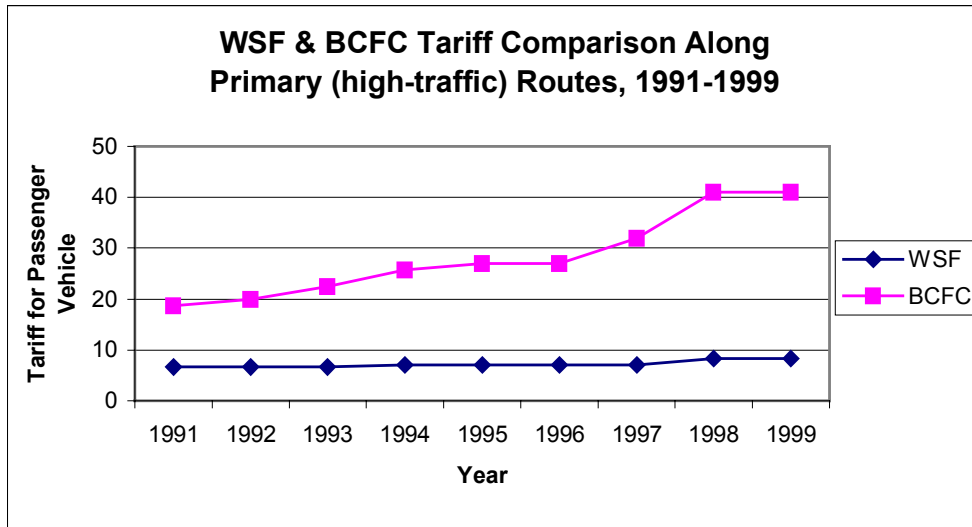
The following graph outlines the changes in BC Ferries' operating revenue, subsidies, and expenses of the last 8 years.



**BC Ferry and WSF Comparative Performance/ Value-for-Dollar Analysis –**

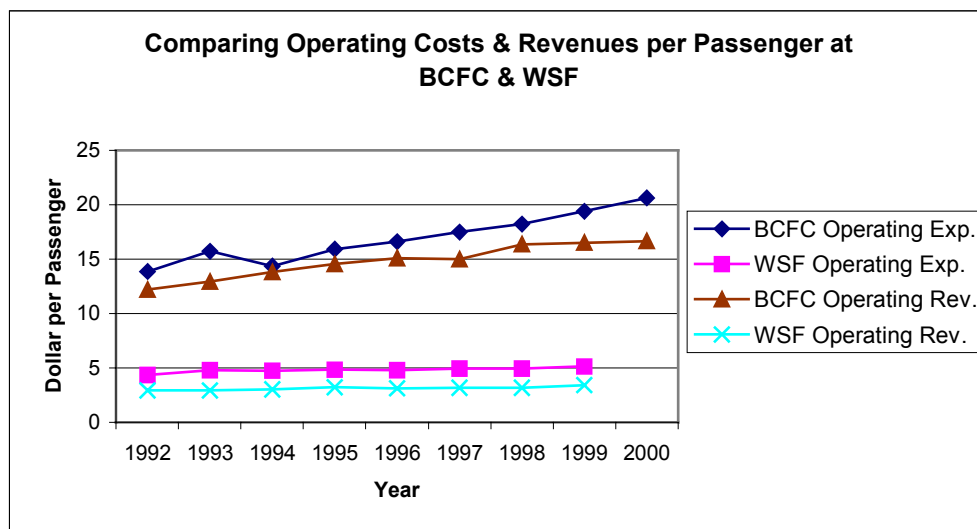
The following graphs outline the financial performance of BC Ferries and WSF in regards to operation expenses/ revenues, employment expenditures, and tariff changes.



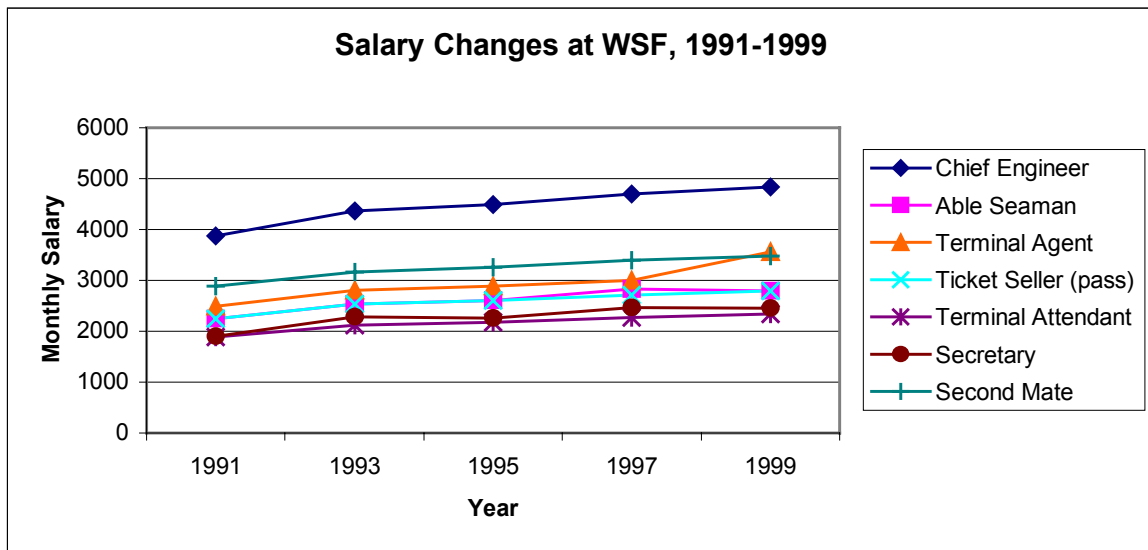


Tariffs along BC Ferries main (commercial) routes have increased 54% (\$25 to \$52) since 1991. While tariffs along WSF main routes have increased by 19% (\$6.65 to \$8.25).

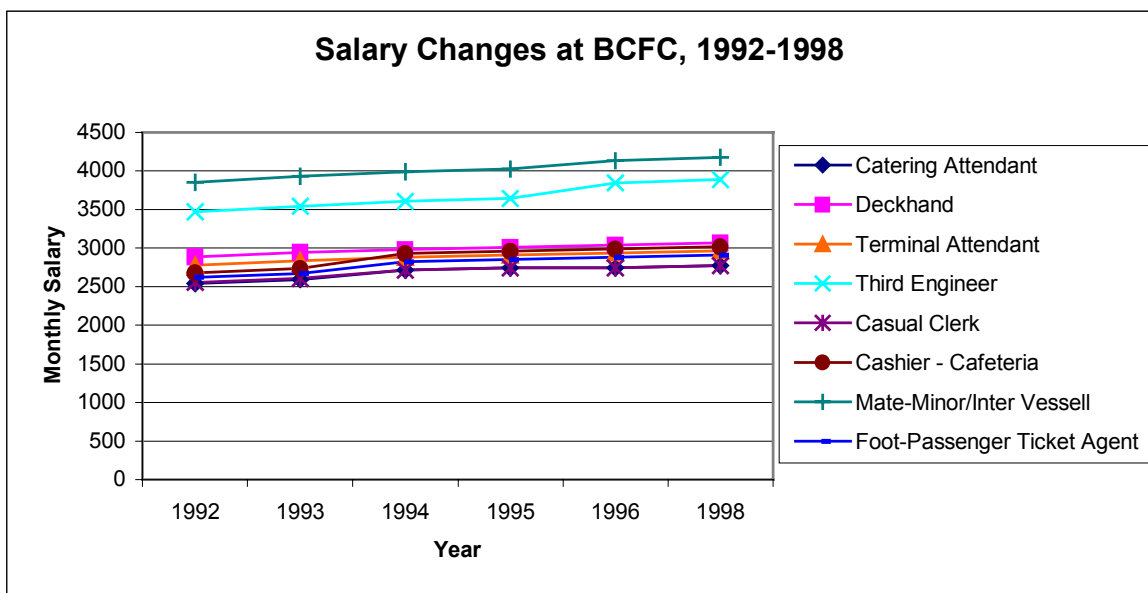
At WSF, the Tariff Policy Committee recommends potential fare increases or decreases. The Tariff Policy Committee was established by the State Transportation Commission in 1991 and includes Transportation Commissioners, state legislators, ferry rider advocates, industry representatives, and transit agency representatives.

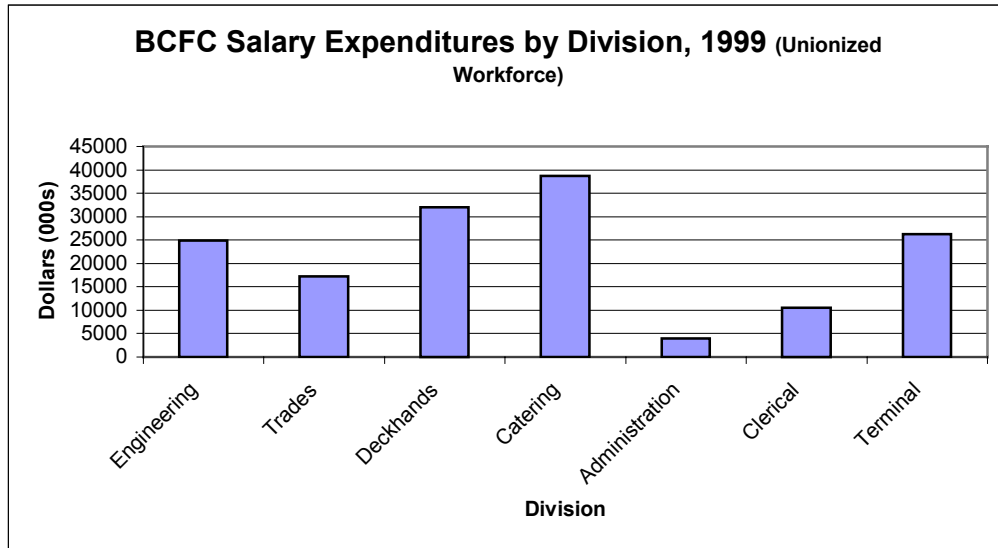


Due to increases in wage expenditures, fuel, and expenses due the PacifiCat “fast ferry” project, operating costs at BC Ferries have risen significantly over the last 7 years.

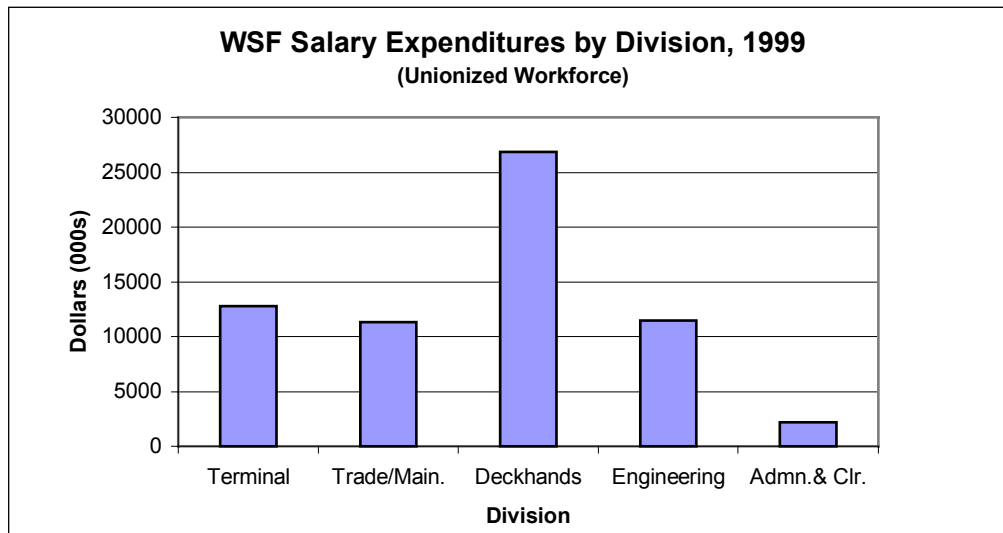


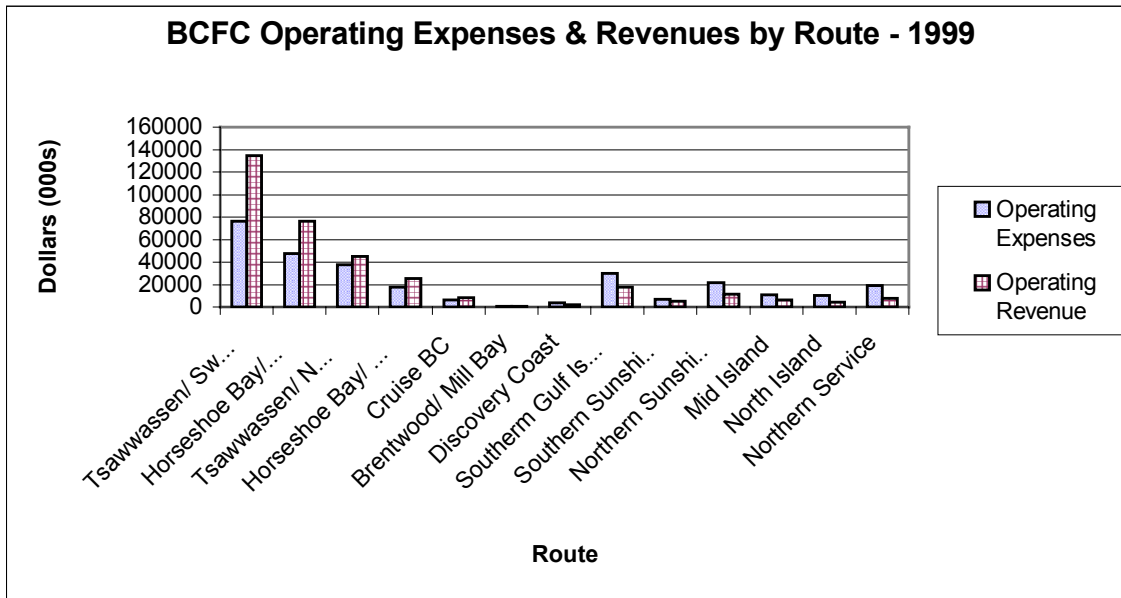
Salary changes among primary positions (positions with the most employees) at BC Ferries and WSF have remained relatively even. WSF has experienced a 20% rise in salaries for such positions, while similar positions at BC Ferries have experienced an 8% - 10% increase.



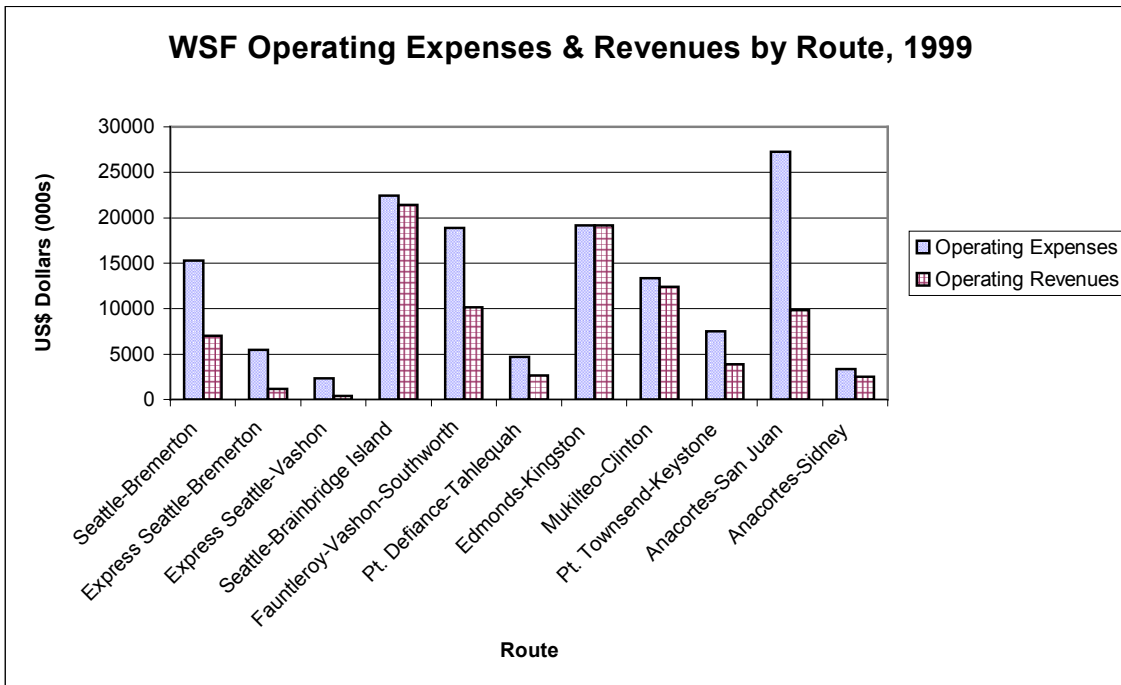


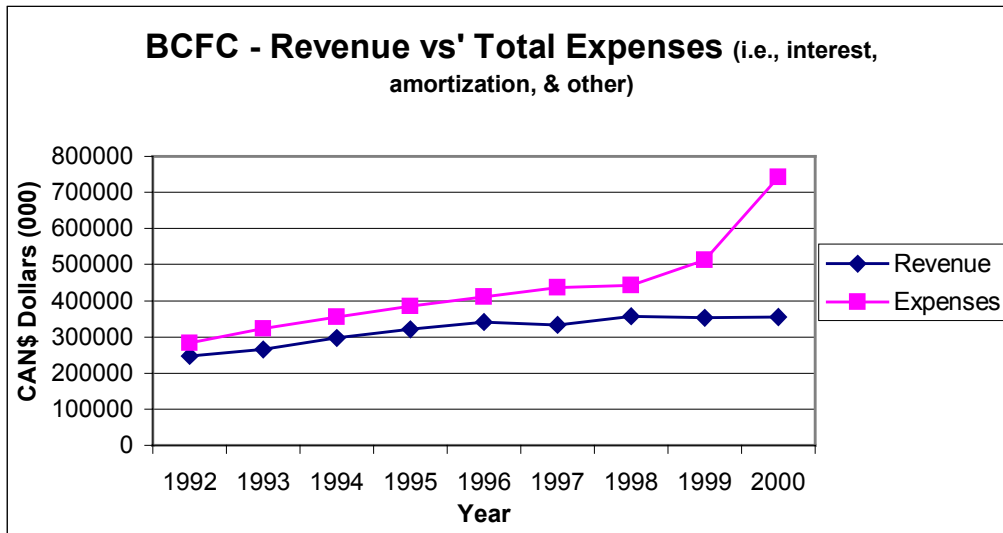
Salary expenditures at BC Ferries are significantly higher on a year-round basis in comparison to salary expenditures at WSF. This is due to the fact that 1,230 of 1,970 casual employees are listed as casual-regular, which means they receive a full year salary, as opposed a seasonal pay arrangement. While BC Ferries caters to a high level of tourism during the summer months they still hold on to 84% of their labour force over the entire year. Unfortunately, monthly wage expenditures were not released by BC Ferries.





Tariffs charged per route at WSF are more equitable across all routes. For further route revenue/ expense information see Appendix #5.





Total annual expenses at BC Ferries have increased substantially due, primarily, to the PacifiCat fast ferry project and rising employee expenditures. Unfortunately, toll revenues have not increased at the same pace due mainly to minimal increases in ridership.

**Performance Conclusions –**

As the preceding performance graphs have illustrated, operating and capital expenses at BC Ferries have increased significantly in comparison to increases in revenue over the last 8 years. What makes this historical trend so discouraging is the fact that BC Ferries has not undertaken any significant or tangible initiatives to decrease operating and capital expenses. Instead, BC ferries has relied upon a 54% increase in fares charged on major commercial routes, as well as higher level of provincial and federal subsidization. Simply put, this is not a desirable trend for taxpayers or BC Ferries' customers.

To stop this undesirable trend, BC Ferries must explore the possibility of privatizing some of its routes and/or re-examining the appropriate service level for smaller, subsidized routes. In Washington State, ferry-operated routes, which have little revenue generating potential, are privatized.

Another undesirable trend, which BC Ferries must break from, is that of an increased reliance on subsidy financing. As of 2000/01, the provincial government has guaranteed BC Ferries a portion of the Motor Fuel Tax. This increase in provincial subsidization, coupled with BC Ferries' monopoly position has effectively removed any incentives for the corporation to operate in a commercially viable manner.

If BC Ferries continue to operate within its current governance regime, with little to no review and scrutiny of its operations, coupled with higher subsidy funding and no competition, operational and financial performance is bound to decrease. Furthermore, the continued lack of separate performance/ financial reporting for smaller, subsidized routes give internal management an excuse for not operating BC Ferries in a commercially viable manner. This scenario could result in even higher annual taxpayer subsidies in the future.

### **Limitations of the Study –**

This comparative analysis faces two limitations in attempting to compare BC Ferries to WSF. First, the information required to create a “span of control” model for BC Ferries was not made available by the corporation. Secondly, data required to explore monthly operating performance, financial and otherwise, were not provided by either WSF or BC Ferries.

The ***span of control*** model is often used to gauge the level of accountability in an organization. In doing so, the span of control model explores the control/communication arrangements in an organization by calculating the number of subordinates under each manager. Essentially, the span of control model examines the organization’s hierarchy, vertically as well as horizontally. An organization with a high span of control ratio, and thus a large hierarchy with a broad girth, may be experiencing a diffused accountability structure by creating barriers to effective communication between decision-makers, middle managers and subordinates.

Data required for ***monthly performance*** comparisons was unavailable for both BC Ferries and WSF. Data for use in monthly comparisons may include employee expenditures and levels of ridership. Such data sets would be particularly useful in assessing the exact change in level of service offered by BC Ferries in response to decreases/ increases in tourism ridership.

### **Conclusion –**

This comparative analysis of BC Ferries and WSF has provided detailed information pertaining to each organization’s governance structure, organizational structure, level of accountability reporting, and overall performance. After review of the information presented in this study it is clear that WSF has more incentives to operate as an accountable organization. Such incentives include the high level of constant and periodic review and scrutiny of WSF by the Washington State legislature. If BC Ferries is to operate with the same level of accountability as WSF, as well as improve its overall performance, it must adopt the following:

- Governance/ organizational re-structuring that provides for greater and more effective review and scrutiny of BC Ferries' operations and activities.
- Enhanced operational and financial performance reporting on specific subjects (i.e. commercial routes, public policy routes, monthly figures).
- More clearly defined management direction.
- Less reliance upon subsidy financing and more prudent levels of service and/or privatization.

Maintaining the current operational status quo at BC Ferries will effectively allow the corporation to function as a monopoly with a high level of subsidy funding, conflicting management objectives and low level of accountability and organizational transparency. This scenario benefits no one, especially the taxpayers of British Columbia.

### III. RECOMMENDATIONS

#### Recommendation #1 –

- ***Improve the governance regime of BC Ferries by: (1) forming a bi-partisan legislative committee dedicated to Crown corporation review; and (2) eliminating the BC Ferries' Board of Directors.***

The provincial government needs to alter BC Ferries' current governance regime in order to provide for: (1) more objective review and scrutiny of the organization; (2) more involvement of the B.C. legislative assembly into BC Ferry affairs; and (3) clearer decision-making responsibilities.

A bi-partisan legislative committee, with a non-partisan support staff, would greatly improve the involvement and quality of accountability reporting to the B.C. Legislature, as well as help make BC Ferries a more transparent organization to the public.

Increasing the current level of review and scrutiny of BC Ferries operations and activities via a bi-partisan legislative committee will ensure that effective performance measures are not only in place, but are also monitored on a consistent basis. Furthermore, a legislative committee will help foster a high level of information disclosure between BC Ferries, the BC Legislature and the public.

Activities of the bi-partisan legislative committee on Crown corporations may include, on an ongoing basis, review of each Crown corporation's mandate and statement of purpose, corporate governance frameworks and practices, strategic plans, annual capital expenditure plans, and corporate performance measures. In essence, the committee would provide structured and constant review of BC Ferries' operations and activities.

As this study has shown, bipartisan legislative committees have not only been successfully utilized within WSFs governance structure, but also within the

governance structures of Manitoba and Saskatchewan. Secondly, the implementation of a legislative committee on Crown corporations has also been endorsed by the former Auditor General of British Columbia, George Morfitt<sup>15</sup>.

Given the role (or lack thereof) of the BC Ferries' Board of Directors in the recent PacifiCat fast ferry initiative, coupled with its limited background in transportation related issues, one has to question their overall relevancy. With the implementation of a bi-partisan legislative committee on Crown corporations, coupled with an adequate support staff, the role of the Board becomes irrelevant.

Due to the part-time nature of the Board in dealing with ferry issues, coupled with the power and authority exercised by the minister responsible, a strong argument can be made regarding the Board's true impact upon ferry operations and activities. BC Ferries, and taxpayers, would benefit more from a bi-partisan legislative committee that is familiar with Crown corporation activities, dedicates more time to reviewing and scrutinizing corporation affairs, and has a greater degree of political power, autonomy, and authority.

Effective boards in private enterprises have a high degree of decision-making authority. At BC Ferries it is the Minister responsible and the Cabinet, not the board of directors that have the greatest degree of decision-making authority. In the words of the former Auditor General:

*"The Act setting up BC Ferries provides for cabinet, not the corporation's board, to make most key decisions, including approving route additions or deletions, approving fares, tolls and other charges, and approving corporate borrowings. Also, since capital plans need cabinet approval and capital budgets need Treasury Board approval, construction of ferries or terminals is also ultimately a government decision. In short, the corporation does not have control over the most significant decisions that affect its financial and operating performance."*<sup>16</sup>

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<sup>15</sup> Auditor General's Report. Accountability of Crown Corporations to the Legislative Assembly. 1997, pg. 35.

<sup>16</sup> Auditor General of British Columbia. A Review of the Fast Ferry Project: Governance and Risk Management. 1999/2000, pg. 12

While there exists the argument that the Board could simply be given more decision-making authority by the minister responsible and Cabinet, this may not be an optimal solution. This is due to the fact that the role of Board members is part-time and the transportation expertise of Board members is quite limited. Furthermore, allowing the Board to have greater decision-making authority would require the minister responsible to relinquish some of his/her authority. Practically speaking, this is usually not done in politics.

BC Ferries requires more structured and periodic reviews in a non-biased and objective manner. Current stakeholders operating within the governance structure of BC Ferries are unable to provide this function.

At WSF, the Washington State Transportation Commission (TC) acts as a “super” board of directors for all public enterprises involved in the delivery of transportation services. The TC advises WSF on transportation policy and operational / capital strategy. The Transportation Commission is described in greater detail on page 21 of this report. Aside from the TC, the various Washington State legislative committees, outlined in this report, serve to monitor, review and report on the activities and operations of WSF in a structured and periodic manner. Together the various legislative committees and Transportation Commission combined to provide an effective oversight role, far more effective than the Board of Directors at BC Ferries.

**Recommendation #2 –**

- ***Improve the quality and accessibility of information regarding BC Ferries operations by: (1) separating information presented in BC Ferries' Annual Report into reporting for profitable routes and reporting for non-commercial (subsidized) routes; and (2) report on employee expenditures and toll/ catering revenue on a monthly basis, both aggregate and per route***

In order to give a clear and accurate portrayal of BC Ferries' operations and performance it is necessary to ***separate annual report information into a commercial component for profitable routes, and a public policy/ economic development component for subsidized routes.*** This format will allow policy-makers to form accurate assumptions regarding BC Ferries' performance, as well as provide policy-makers with the relevant information required to form decisions regarding whether BC Ferries should pursue public policy initiatives (i.e. operating non-profitable routes, level of subsidy funding).

Reporting for commercial and non-commercial routes would involve financial reporting, as well as any other performance reporting information deemed applicable (i.e. levels of ridership, employee levels). Without clear, separate reporting, internal management will have an excuse for not operating the corporation in a commercially viable manner.

Due to the monthly fluctuations in ridership at BC Ferries, particularly those experienced over the summer months as a result of tourism in British Columbia, an accurate portrayal of operational and financial performance ***must include reporting on employee expenditures and toll/ catering revenue on a monthly basis, both aggregate and per route.*** This method of monthly reporting will allow policy-makers to gauge the appropriate level of service offered by BC Ferries in response to increases/ decreases in monthly ridership.

Monthly reporting should include employee expenditures (including overtime expenditures), toll revenue, catering revenue, and ridership rates. Furthermore,

monthly reporting figures should be presented in a fashion that allows for further analysis of route information.

**Recommendation #3 -**

- ***Re-evaluate “appropriate” service levels on smaller, subsidized routes.***

Small, subsidized (non-profitable) routes are placing a financial burden on BC Ferries, even with the 54% increase in fares along commercial routes over the last eight years to assist in financing such smaller routes. The time has come for BC Ferries to re-evaluate the appropriate level of service along non-commercial routes as opposed to heavier reliance upon provincial/ federal subsidy funding and revenues generated from commercial routes.

Appropriate levels of service must be in keeping with the management direction of the corporation as determined by the decision-makers involved in the governance regime. An appropriate level of service may include no service by BC Ferries. This recommendation may necessitate the privatization of current routes. At WSF, for example, internal policy has been to privatize any non-profitable routes, thereby allowing the private market to determine the prudent level of service along such routes.

**Recommendation #4 –**

- ***Allow private sector to provide ferry service***

With the current increases in subsidy funding and no private sector competition, the performance of BC Ferries, financial and otherwise, can be expected to decrease. By competing with the private sector and/or fully privatizing some of its current routes, BC Ferries would decrease its operational and capital expenses significantly and improve its overall performance.

BC Ferries may integrate the private sector into ferry operations by: (a) offering both private and public ferry service along primary, commercial routes; (b) partially or fully privatizing smaller, subsidized routes; or (c) allowing private sector competition along all non-profitable, subsidized routes.

Maintaining both public and private ferry operations along the primary commercial routes running from Vancouver Island to the mainland would not only offer optimal performance via competition, but would also ensure that access to and from Vancouver Island is always available in the event of a labour strike.

BC Ferries recently announced yet another fare increase for the 2000/ 2001 fiscal year. This new fare increase, coupled with the 54% increase in fares over the last 9 years, indicates that alternative ferry service arrangements via the private sector must be utilized.

## APPENDIX 1

### CROWN CORPORATION GOVERNANCE FRAMEWORK

#### RISK CATEGORIZATION AND GRADING METHODOLOGY FOR CROWN CORPORATIONS

<b>RISK/OPPORTUNITY – each category could be weighted corresponding to high, medium, low risk etc.</b>	
Economic Impact	Includes the size of the entity, # of employees, impact on the local economy, impact on/interaction with the private sector
Social Impact	Includes impact on society and the environment and the extent to which the entity delivers critical support services to government
Income Statement	Includes the size and variability of the dollar impact on the summary accounts
Balance Sheet/ Capital Project	Includes size of debt, size/risk of capital program, risk of failure, and level of outside completion
Profile	Includes history of controversy and level of ongoing public profile as well as the degree to which the operations have varied in recent years
<b>MITIGATION – could be weighted more heavily to offset the risk number.</b>	
Board/Management Capacity	Includes availability/quality of multi-year plans, performance against stated objectives, performance variance strategies, existence of enterprise-wide risk management programs, executive experience of Chair and directors, CEO/board evaluations, competitive position of the Crown, commercial opportunities available to the individual Crown, existence of other “regulators” (e.g. utilities commission, appeals mechanisms, ministries, etc.)

(Source: MOF: Crown Corporation Governance Framework, July 2000, pg.5)

## APPENDIX 2

**CROWN CORPORATION GOVERNANCE FRAMEWORK – CON'T****FUNCTIONAL INDEPENDENCE & ACCOUNTABILITY MECHANISMS**

<b>I. Key Crown Corporation Functions with Variable Oversight</b>			
<i>Function</i>	<i>High Oversight</i>	<i>Medium Oversight</i>	<i>Low Oversight</i>
Annual Budgets	Treasury Board approval required for annual operating and capital budget and performance targets.	Board approves, subject to meeting any applicable Treasury Board guidelines/targets - <u>specific</u>	Board approves, subject to meeting any applicable Treasury Board guidelines/targets - <u>general</u>
Performance Plans (BTA Act Terminology)	Plan prepared based on general guidelines developed by government. Formalized process for initial direction from government and high level of review of plan by government and Minister responsible prior to Board approval.	Plan prepared based on general guidelines developed by government. Formalized process for initial direction from government and medium level of review of plan by government and Minister prior to Board approval.	Plan prepared based on general guidelines developed by government. Formalized process for initial direction from government and low level of review of plan by government and Minister prior to Board approval.
Performance Reports (BTA Act Terminology)	Board prepares and approves, subject to government guidelines and after review by government and Minister. Report is then tabled in the legislature and defended by Minister and Board.	Board prepares and approves, subject to government guidelines and after review by government and Minister. Report is then tabled in the legislature and defended by Minister and Board.	Board prepares and approves, subject to government guidelines and after review by Minister only. Report is then tabled in the legislature and defended by Minister and Board.
Management of Financial Targets	Board submits detailed monthly financial and performance reports to government to confirm whether targets are being met – and describes any amendments or major risks to future performance. Where the Board (or government) believes that the Crown	Board submits detailed monthly financial and performance reports to government to confirm whether targets are being met – and describes any amendments or major risks to future performance. Where the Board (or government) believes that the Crown may not meet its targets,	Board submits detailed monthly financial and performance reports to government to confirm whether targets are being met – and describes any amendments or major risks to future performance. Where the Board (or government) believes

	may not meet its targets, options for corrective action must be identified. TB direction/approval will be required for any corrective plan.	options for corrective action must be identified. Board may approve corrective action without further reference to TB if the plan is consistent with the shareholder's letter.	that the Crown may not meet its targets, options for corrective action must be identified. Board may approve corrective action without further reference to TB if the plan is consistent with the shareholder's letter.
Capital Management and Reporting	The options will be based on regulations/directives/policy developed in accordance with the amendments to the FAA and FIA . Options will be "risk based".		
Tariff Setting	Board approves and recommends to Treasury Board and Cabinet for final approval.	Individual tariff changes are approved by the Board within a set of recommended principles for tariff setting that has been approved by Treasury Board and/or applicable external regulatory agencies.	Board approves tariff changes within any applicable external regulatory requirements.

## II. Core Functions Treated the same for All Crown Corporations

<i>Function</i>	<i>Recommended Approach</i>
Appointment of Directors	Cabinet appoints. Board must develop a roster of qualified candidates to recommend to Minister responsible. Government works with board to ensure potential candidates meet skill and experience qualifications to meet corporation/government priorities. Minister responsible recommends to Cabinet based on recommendation of Board and other candidates identified by the Minister.
Appointment of Chair	Cabinet appoints based on recommendation of Minister responsible (based on identified skills required for particular position).
Setting Financial Targets	Treasury Board will set financial targets for the Crowns as part of the Budget process (and incorporate into shareholder's letters. Crowns will have an opportunity to present their response before a final decision is taken.
Approval of Shareholder Letter	The annual shareholder letter will be developed by the Minister responsible based on the financial and other targets set by Treasury Board and Cabinet. The letter will be reviewed/approved jointly by Minister responsible and Minister of Finance. Minister responsible will execute with Chair of the board of respective Crown.
Debt Policy	Continue with current arrangement—Minister of FCR is the province's fiscal agent, transacting all borrowings and derivatives on behalf of Crown corporations. The ministry also leads any interaction with the financial community including engagement of all relative services.

Accounting Policy	Changes to align policy more closely to government will be approved by the Comptroller General (CG). Changes leading to material departure from existing government policy will be approved by TB on recommendation of the CG and DM Finance.
Policy Direction	Institute a formal policy consultation process with Crowns on key government policy initiatives. For those situations where government direction is inconsistent with the stated mandates of the corporation, government will develop an indemnity mechanism to both protect directors and ensure board accountability for implementation of government directed policy decisions.
Mandate Review	All Crowns be required to conduct a Board led mandate review once every three years as part of the strategic planning process and submit to minister and Cabinet for review/approval.

## APPENDIX 3

### 2000/01 BC FERRY PERFORMANCE PLAN

#### A) Productivity Measures

##### Traffic Carried per Operational Employee

This measure is derived by dividing the traffic (in auto equivalents or passengers) by the number of operational employees. Operational employees are defined as those who are involved in operational activities, either directly (i.e. ship or terminal workers) or indirectly (i.e. those that support operational workers such as crewing personnel). The measures will be reported by region and route, and for major routes, separately for ships and terminals. The purpose of these measures is to gauge the effectiveness in utilizing labour resources.

##### Capacity utilization

Capacity utilization is defined as traffic divided by capacity. It will be reported by region and route and can be compared over time or between route. It will be a gauge of how well management is able to utilize the vessels at its disposal.

##### Sales per Catering Employee

This is defined as total on board revenue divided by the number of Catering FTE's. It is designed to measure management effectiveness in utilizing labour resources.

#### B) Safety Measures

##### *Employee Safety*

##### Employee Injury Frequency

Designed to reflect the Corporation's use of safe work procedures and accident prevention measures, this measure represents the frequency of injuries occurring in the workplace during the reporting period and is calculated as the number of disabling for every 100 employee-years within the time period.

##### Injury Severity

This measure is defined as the number of days lost due to injuries per million employee hours. It reflects both the level of safe work procedures and the effectiveness of return-to-work strategies. It will also be reported by work site.

### *Customer Safety*

#### Passenger related safety incidents

This measure will report significant passenger related safety incidents per 100,000 passengers carried. This measure will be reported by route and major terminal. The measure reflects success in minimizing safety risks and preventing passenger injuries.

#### Passenger related safety claims

This measure is defined as the number of insurance claims received per 100,000 passengers carried. It is an attempt to determine the impact of passenger incidents. It will be reported by route and major terminal.

### *Asset Safety*

#### Asset Safety

This is a two-part measure that includes the number of damage incidents reported by Operations staff and the dollar value of the incidents per 100,000 sailings. These will be reported by route. It is intended to reflect the care taken in using and maintaining major capital assets.

### **C) Financial Measures**

#### Gross margin of operations

This is defined as the total route revenue minus direct route operating expenses. It is intended to measure route management effectiveness.

#### Gross margin of on-board services

This is defined as the total on-board revenue minus the costs of goods sold. It is intended to measure on-board services management effectiveness. It will be reported by route and by ship for major routes.

#### Capital Project Budget Adherence

This measure is defined as the variance of project budgets and final costs. It is intended to measure effectiveness in managing major capital projects.

#### Forecast Variance

This measure is intended to gauge the success of management in effectively forecasting traffic, revenue and expenditures. The traffic and revenue measures will be reported by route and region while the expenditure measure will be reported by cost centre, region and division. This measure reflects management's ability to control costs while achieving financial objectives.

#### **D) Human Resources Measure**

##### Rate of absenteeism

The rate of absenteeism will be reported by work site. It is intended to measure effectiveness in managing absenteeism.

##### Rate of turnover

This measure will be reported for excluding and regular classifications.

#### **E) Customer Service Measures**

##### On-time performance

This measure is defined as the number of sailings arriving within 10 minutes of schedule divided by the total number of sailings. It will be reported by route.

##### Overloaded sailings

This measure is defined as the number of overloaded sailings divided by the total number of sailings. It is intended to reflect the customer's ability to catch the sailing of their choice with a minimum amount of waiting. It will be reported by route.

##### Cancelled sailings

This measure is intended to track the number and cause of canceled sailings. It will be reported by route.

#### **F) Public Satisfaction Measures**

##### Angus Reid Poll

The Angus Reid group produces a quarterly survey of public perceptions of major companies and organizations in British Columbia. This poll provides a high level view of the success of the Corporation based on the opinions of the public respecting its services.

## APPENDIX 4

### **BC FERRIES' CORPORATE MANDATE:**

The mandate of the Corporation is defined in the Ferry Corporation Act, which took effect on January 1, 1977. The objectives and powers of the Corporation are defined in Section 6 of that Act which is reproduced in its entirety below:

The objectives of the Corporation are, and it has the power and capacity:

- To establish, operate, administer and maintain a ferry, shipping and related service, including, subject to section 7(1) the ferry system, and to engage in any other business or undertaking necessary or incidental to the operation of a ferry, shipping or related service;
- To acquire by any means except expropriation, to charter, to hold in its own name, and to use and operate ferries and terminals and such other property and assets, both real and personal, as are considered by the corporation to be necessary or required for the conduct of its operations, and to use and operate the ferries, terminals and other property and assets acquired for ferry, shipping and related purposes;
- Subject to the approval of the Lieutenant Governor in Council, to lease, charter, mortgage, sell or otherwise dispose of ferries and terminals and other properties and assets, both real and personal, the corporations holds;
- To undertake such construction and reconstruction of ferries or terminals as in the opinion of the corporation is necessary or required for the conduct of its operation;
- Subject to the approval of or on the direction of the Lieutenant Governor in Council, to add or delete routes of the ferry or shipping service carried on by the corporation;
- To enter into agreements with or accept grants or fees for service from persons, corporations, municipalities or regional districts and other governmental authorities or any of their agencies, for the purpose of this section;
- To invest or loan the funds not otherwise required for the purpose of the corporation in those investments or loans authorized by the Lieutenant Governor in Council;

- Subject to the approval of the Lieutenant Governor in Council, to acquire by any means, except by expropriation, the whole or any part of the property, assets and undertaking, and to assume in whole or in part the obligations and liabilities of any person carrying on or entitled to carry on activities which the corporation is authorized to carry on or which can be carried on incidental to, or in connection with, the exercise of the objects and powers of the corporation;
- Subject to the approval of the Lieutenant Governor in Council, to acquire all or any of the shares of another corporation, incorporated for the purpose of, or engaging in, the operation of ferry, shipping and related services, or in any other business necessary or incidental to the operation of ferry, shipping and related services;
- Subject to this Act, to borrow such money as the corporation considers necessary or advisable and to issue notes, bonds, debentures and other securities for that purpose; and
- To do things not inconsistent with this Act it considers necessary or advisable for carrying out any of its objects and powers.



**APPENDIX #5  
ROUTE REPORT 1997-1999**

ROUTE	REVENUE			OPERATING EXPENSES			CONTRIBUTION			ALLOCATED REV. & COSTS			SUBSIDIES			NET INCOME (LOSS)		
	1997	1998	1999	1997	1998	1999	1997	1998	1999	1997	1998	1999	1997	1998	1999	1997	1998	1999
<b>MAJOR COMMERCIAL ROUTES</b>																		
Tsawwassen/Swartz Bay	120,116	130,220	134,901	76,205	75,881	76,493	43,911	54,339	58,408	60,256	58,688	59,415				(\$16,345)	(\$4,349)	(\$1,007)
Horseshoe Bay/Nanaimo	65,781	73,490	76,271	48,174	47,822	52,765	17,607	25,668	23,506	19,921	18,960	20,756				(\$2,314)	\$6,708	\$2,750
Tsawwassen/Nanaimo	44,263	47,076	45,365	34,152	37,337	38,327	10,111	9,739	7,038	13,905	17,951	18,192				(\$3,794)	(\$8,212)	(\$12,154)
Horseshoe Bay/Langdale	22,761	24,506	25,111	16,412	17,849	18,251	6,349	6,657	6,860	4,899	5,234	5,746				\$1,450	\$1,423	\$1,114
<b>SMALL COMMERCIAL ROUTES</b>																		
Inside Passage/ Cruise BC (Summer)	9,259	9,144	8,450	5,291	6,631	7,771	3,968	2,513	679	1,664	1,794	1,763				\$2,304	\$719	(\$1,084)
Brentwood/Mill Bay	895	621	701	976	878	1,159	(81)	(257)	(458)	61	52	47				(\$142)	(\$309)	(\$505)
Discovery Coast	1,806	1,430	1,776	3,516	3,746	2,805	(1,910)	(2,316)	(1,029)	897	955	1				(\$2,807)	(\$3,271)	(\$1,030)
<b>COMMERCIAL ROUTES</b>	<b>264,681</b>	<b>286,487</b>	<b>292,575</b>	<b>184,726</b>	<b>190,144</b>	<b>197,571</b>	<b>79,955</b>	<b>96,343</b>	<b>95,004</b>	<b>101,603</b>	<b>103,634</b>	<b>106,920</b>				<b>(\$21,648)</b>	<b>(\$7,291)</b>	<b>(\$11,916)</b>
<b>SOUTHERN GULF ISLANDS</b>																		
Swartz Bay/Saltspring	3,601	3,830	4,087	4,795	5,364	5,638	(1,194)	(1,534)	(1,551)	1,176	1,224	1,370	1,310	1,310	1,584	(\$1,060)	(\$1,448)	(\$1,337)
Swartz Bay/Outer Gulf Islands	2,648	2,922	3,120	9,620	10,015	10,958	(6,972)	(7,093)	(7,838)	2,218	2,177	2,514	2,269	2,287	2,852	(\$6,921)	(\$6,983)	(\$7,500)
Crofton/Saltspring	2,100	2,367	2,430	1,987	2,557	2,596	103	(190)	(166)	298	336	389	330	374	462	\$135	(\$152)	(\$93)
Tsawwassen/Gulf Islands	7,786	8,134	8,044	12,354	11,645	13,575	(4,568)	(3,511)	(5,531)	4,505	4,158	4,771	4,776	4,373	5,428	(\$4,297)	(\$3,296)	(\$4,874)
<b>SOUTHERN SUNSHINE COAST</b>																		
Horseshoe Bay/Bowen Island	4,427	4,884	4,899	6,392	6,302	7,095	(1,965)	(1,418)	(2,196)	768	863	1,026	1,124	1,222	1,352	(\$1,609)	(\$1,079)	(\$1,870)
Langdale/ Gambier/Keats	133	149	146	436	484	538	(303)	(335)	(392)	47	57	64	53	56	163	(\$297)	(\$336)	(\$293)
<b>NORTHERN SUNSHINE COAST</b>																		
Saltory Bay/Earls Cove	4,058	4,217	4,344	8,220	9,543	9,604	(4,162)	(5,326)	(5,260)	1,569	1,774	1,908	1,297	1,356	1,725	(\$4,434)	(\$5,744)	(\$5,443)
Comox/ Powell River	5,633	5,835	5,947	8,359	9,031	9,169	(2,726)	(3,196)	(3,222)	1,699	1,796	2,094	1,924	2,040	2,687	(\$2,501)	(\$2,952)	(\$2,629)
Powell River/ Texada	834	858	976	3,262	3,136	3,356	(2,428)	(2,278)	(2,380)	269	310	319	353	363	523	(\$2,344)	(\$2,225)	(\$2,176)
<b>MID ISLAND</b>																		
Nanaimo Harbour/ Gabriola	2,807	3,101	3,053	3,238	3,534	4,020	(431)	(433)	(967)	682	771	747	976	1,045	1,115	(\$137)	(\$159)	(\$599)
Chemainus/ Thetis/ Kuper	636	725	739	1,811	1,974	2,302	(1,175)	(1,249)	(1,563)	201	222	242	332	348	484	(\$1,044)	(\$1,123)	(\$1,321)
Buckley Bay/ Denman	1,403	1,639	1,684	2,669	2,833	3,234	(1,266)	(1,194)	(1,550)	235	271	300	228	242	287	(\$1,273)	(\$1,223)	(\$1,563)
Denman/ Hornby	808	934	1,078	2,317	2,223	2,503	(1,509)	(1,289)	(1,425)	159	167	190	113	119	159	(\$1,555)	(\$1,337)	(\$1,456)
<b>NORTH ISLAND</b>																		
Campbell River/ Quadra	2,630	2,942	2,973	4,551	4,317	4,490	(1,921)	(1,375)	(1,517)	395	443	474	506	543	587	(\$1,810)	(\$1,275)	(\$1,404)
Quadra/ Cortes	435	495	549	2,037	2,027	2,318	(1,602)	(1,532)	(1,769)	234	279	320	221	248	478	(\$1,615)	(\$1,563)	(\$1,611)
Port McNeill/ Alert Bay/ Sointula	1,049	1,467	1,123	3,750	3,578	3,868	(2,701)	(2,111)	(2,745)	601	582	589	881	904	1,137	(\$2,421)	(\$1,789)	(\$2,197)
<b>NORTHERN SERVICE</b>																		
Bear Cove/ Prince Rupert (Winter)	2,526	2,570	2,499	6,046	7,289	8,426	(3,520)	(4,719)	(5,927)	4,605	4,445	4,863	1,898	1,881	7,935	(\$6,227)	(\$7,283)	(\$2,655)
Prince Rupert/ Skidegate	4,326	4,564	4,337	8,254	8,655	8,438	(3,928)	(4,091)	(4,101)	2,001	2,052	2,247	1,623	1,629	4,927	(\$4,306)	(\$4,514)	(\$1,421)
Skidegate/ Alliford Bay	512	519	539	1,953	2,805	2,359	(1,441)	(2,286)	(1,820)	129	127	132	131	133	217	(\$1,439)	(\$2,280)	(\$1,735)
<b>NON-COMMERCIAL ROUTES</b>																		
	48,352	52,152	52,567	92,061	97,312	104,487	(43,709)	(45,160)	(51,920)	21,791	22,074	24,359	20,345	20,473	34,102	(\$45,155)	(\$46,761)	(\$42,177)

## APPENDIX #6 CHART DATA TABLES

Comparing Operating Costs/ Revenues per Passenger at BCFC & WSF, 1992-2000										
	1992	1993	1994	1995	1996	1997	1998	1999	2000	
<b>BCFC Exp.</b>	13.86	15.75	14.34	15.92	16.63	17.49	18.22	19.41	20.66	
<b>WSF Exp.</b>	4.38	4.79	4.76	4.86	4.78	4.95	4.94	5.14		
<b>BCFC Rev.</b>	12.23	12.92	13.84	14.55	15.12	14.99	16.37	16.5	16.65	
<b>WSF Rev.</b>	2.95	2.95	3.02	3.24	3.16	3.2	3.2	3.42		
<b>WSF Operating Revenues, Subsidies and Expenses 1992-1999 (US\$) (000's)</b>										
	1992	1993	1994	1995	1996	1997	1998	1999		
<b>Revenues</b>	70011	68604	71477	80261	84061	87262	83585	91457		
<b>Subsidies</b>	31442	41902	40294	36064	33413	35998	55744	59455		
<b>Expenses</b>	101453	110506	111771	116325	117474	123260	127917	136310		
<b>BCFC Operating Revenues, Subsidies and Expenses 1992-1998 (CAN\$) (000's)</b>										
	1992	1993	1994	1995	1996	1997	1998	1999	2000	
<b>Revenues</b>	250901	265249	297871	320334	340487	333846	356810	355890	352946	
<b>Subsidies</b>	28147	41298	36332	34000	30674	26500	26631	46000	87113	
<b>Expenses</b>	284282	323466	328414	350535	374568	389501	363457	388805	372593	
<b>WSF Passengers, Vehicles, and Fare Revenue 1991-1999 (US\$) (000's)</b>										
	1991	1992	1993	1994	1995	1996	1997	1998	1999	
<b>Passengers</b>	12494	13211	13008	13099	13286	13858	13967	14701	15117	
<b>Vehicles</b>	9309	9975	10070	10393	10520	10741	10913	11214	11378	
<b>Fares</b>	63971	68329	68053	67334	77667	78022	80111	82960	90629	
<b>BCFC Passengers, Vehicles, and Fare Revenue 1991-2000 (CAN\$) (000's)</b>										
	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
<b>Passengers</b>	19775	20518	20533	21529	22021	22512	22269	21799	21379	21381
<b>Vehicles</b>	7707	7965	8273	8254	8273	7884	7815	7985	8163	8304
<b>Fares</b>	186335	241313	216252	241313	259592	271451	267779	290120	291763	292355
<b>BCFC Revenues vs' Total Expenses, 1992-2000 (CAN\$) (000's)</b>										
	1992	1993	1994	1995	1996	1997	1998	1999	2000	
<b>Revenue</b>	247901	265249	297871	320334	340487	333846	356810	352946	355890	
<b>Expenses</b>	284282	323466	355983	385226	410630	436854	442463	513253	742132	

**APPENDIX #6 – CON'T**

<b>BCFC Salary Changes 1992-1998 (CAN\$) (MONTHLY)</b>						
	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1998</b>
Catering Attendant	2544	2595	2714	2741	2744	2771
Deckhand	2888	2946	2980	3010	3037	3067
Terminal Attendant	2782	2838	2881	2909	2937	2966
Third Engineer	3473	3543	3608	3644	3848	3886
Casual Clerk	2557	2608	2714	2741	2744	2771
Cashier - Cafeteria	2681	2735	2931	2961	2990	3020
Mate-Minor/Inter Vessel	3852	3929	3988	4028	4136	4177
Foot-Passenger Ticket A	2619	2671	2823	2851	2881	2910
<b>WSF Salary Changes 1991-1999 (US\$) (MONTHLY)</b>						
	<b>1991</b>	<b>1993</b>	<b>1995</b>	<b>1997</b>	<b>1999</b>	
Chief Engineer	3873	4360	4491	4696	4837	
Able Seaman	2248	2530	2607	2820	2793	
Terminal Agent	2491	2805	2889	3004	3556	
Ticket Seller (pass)	2248	2530	2607	2712	2793	
Terminal Attendant	1881	2116	2179	2266	2334	
Secretary	1900	2282	2254	2465	2448	
Second Mate	2878	3166	3261	3391	3480	
<b>WSF Salary Expenditures by Division, 1999 (US\$) (000's)</b>						
Terminal	12771					
Trade/Main.	11331					
Deckhands	26844					
Engineering	11453					
Admn. & Clr.	2202					
<b>BCFC Salary Expenditures by Division, 1999 (CAN\$) (000's)</b>						
Engineering	24869					
Trades	17173					
Deckhands	31976					
Catering	38740					
Administration	3971					
Clerical	10588					
Terminal	26322					

**APPENDIX #6 – CON'T**

<b>WSF Operating Expenses &amp; Revenues by Route, 1999 (US\$) (000's)</b>									
	<b>Expenses</b>		<b>Revenues</b>						
Seattle-Bremerton	15274	7046							
Express Seattle-Bremerton	5473	1162							
Express Seattle-Vashon	2310	383							
Seattle-Brainbridge Island	22449	21420							
Fauntleroy-Vashon-Southworth	18905	10187							
Pt. Defiance-Tahlequah	4702	2661							
Edmonds-Kingston	19182	19163							
Mukilteo-Clinton	13345	12425							
Pt. Townsend-Keystone	7472	3856							
Anacortes-San Juan	27263	9825							
Anacortes-Sidney	3328	2499							
<b>BCFC Operating Expenses &amp; Revenues by Route, 1999 (CAN\$) (000's)</b>									
	<b>Expenses</b>		<b>Revenue</b>						
Tsawwassen/ Swartz Bay	75881	134901							
Horseshoe Bay/ Nanaimo	47822	76271							
Tsawwassen/ Nanaimo	37337	45365							
Horseshoe Bay/ Langdale	17849	25111							
Cruise BC	6631	8450							
Brentwood/ Mill Bay	878	701							
Discovery Coast	3746	1776							
Southern Gulf Islands	29581	17681							
Southern Sunshine Coast	6786	5045							
Northern Sunshine Coast	21710	11267							
Mid Island	10564	6554							
North Island	9922	4645							
Northern Service	18749	7375							
<b>WSF &amp; BCFC Tariff Comparison Along Primary (high-traffic) Routes, 1991-1999</b>									
	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
<b>WSF (US\$)</b>	6.65	6.65	6.65	7.1	7.1	7.1	7.1	8.25	8.25
<b>BCFC (CAN\$)</b>	18.75	20	22.5	25.75	27	27	32	41	41

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