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TO: LHEDC Chair Hughes-Skandijs and Assembly

FROM: Rorie Watt, City Manager

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RE: Cruise Ship Visitation Trends

Attached is an annotated chart showing the growth of cruise ship passenger visitation over the past 23 years. Next summer, if the ships are full, we are projected to receive 1.67M visitors; that is an extreme increase from Juneau's previous all-time high of 1.3 million in 2019. Note that a projection for 2023 is a different metric than the actual visitation of 2019.

Over the past several months, projections on whether ships will run closer to full capacity have only become more bullish – sales information is anecdotally very strong. General belief in the industry is that ships will be more than 90% full. Summer of 2024 capacity is also similarly scheduled at 1.68M (note that the number is stable to 2023 even though the 2024 schedule essentially has a maximum of five ships per day). Both 2023 & 24 will materialize into a 16-30% increase of our previous record (assuming ships are 90-100% full), an increase of up to 375K visitors. Ship visitation has increased, as has the average ship size, some of visitation growth is shifting to the shoulder season with ships arriving earlier and staying later than previous years.

In 2018-19, the industry closely watched our VITF discussions, nominally understands, and verbally supports our goals. But in practice, the individual lines are competitors and the proposed schedule shows that they will continue to respond to market opportunities. Individual or collective restraint on visitation growth shows little sign of actually happening. That said CBJ relations with the industry collectively through CLIA or directly with individual lines is generally excellent. We have to acknowledge that the forces that drive large company behavior are difficult to harness. People generally assume that government is bureaucratic; I can assure you that policy change for large multi-national corporations is exceptionally difficult. It is far more difficult for cruise ship companies to change their economic behavior than it is for CBJ to change policy.

Resolution 3011 is before the Assembly and would adopt five policy objectives from the Visitor Industry Task Force recommendations, including a limit of five cruise ships per day and a strategy of congestion management. The VITF was additionally reluctant to recommend a hard cap on visitation, citing legal and logistical issues. However, the general tone was that greater than 1.5M passengers could be a tipping point, would likely not be good for the community – too much congestion, not enough tour opportunities, too much neighborhood impact from tours. I would also now add the very real question as to whether tourism retail or tour operators or destinations will be able to hire workforce to serve additional visitors and a lack of housing looms over many municipal decisions.

If visitation already exceeds what the VITF thought was healthy for the community with four docks and a ship at anchorage, the question has evolved even *more pointedly* to how a fifth dock can achieve better management of tourism without creating excess visitation as the VITF intended. Some thoughts and potential pitfalls follow, they are all interconnected, the situation is dynamic and fluid. And very complicated; I encourage the public to avoid over simplifying the issues.

Visitor Industry Task Force Thinking:

The general consensus was that a fifth dock could result in similar visitation with better results, if bundled with:

- Elimination of ships at anchor

- Elimination of hot berthing (notably at the AJ dock)

- An agreement to move ships around the harbor to achieve "best ship at best dock"

The VITF also recommended negotiation over regulation, but as of yet negotiation has not yielded progress on the above management topics. This thinking was all predicated on a level of visitation that would have been a lot *lower* than we are already going to see in the next two summers.

Cost of Fifth Dock:

In an effort to gain community support, NCL painted compelling infrastructure development pictures (and Huna Totem has done so to a lesser degree). Essentially both parties have proposed expensive facility plans that are tailored to satisfy comment, complaint and community desire in an effort to gain public support. However, the larger dollar amount that is invested in a fifth dock and associated facility, the more the investor will want and need to recoup that investment – and a growth in overall port visitation is an obvious outcome of a big infrastructure investment. A subport dock investor would be incentivized to recruit ships from other docks, schedule ships on days when there are openings in the schedule, or schedule larger ships at the expense of smaller ships. The other private docks would be incentivized to do the same. ***Ironically***, a nicer more expensive dock and facility at the subport that is tailored mitigate issues and respond to public wishes could heavily incentivize an overall ***increase*** in visitation.

In order to accommodate more visitors without creating community conflict, an investment in ***tour opportunities*** would be rational. Given that all money is derivative from visitors, the pool of potential money is limited. As a thought process, think about the following question – would it be better for the community to have a \$20M investment in an underground parking structure on the waterfront or better to invest that same \$20M to create new tour opportunities?

Regional Dynamics:

It is often helpful to think of cruise ship itineraries as we analyze the Juneau situation. There are **3** berths in Vancouver and **3** in Seattle, allowing about **6** ships a day to initiate itineraries to Alaska. Ketchikan now has **6** berths (**4** downtown and **2** at Ward Cove), Glacier Bay allows **2** ships per day and Tracy Arm can accommodate **2** to **3**, staggering with Endicott Arm, the combination of Skagway (**4**, maybe decreasing), Icy Straits Point (**2**) and Sitka (**2**) makes an additional ***two*** berths in Juneau a natural fit for seven day itineraries. Berthing in Juneau continues to be a critical itinerary link for the companies. Cross gulf itineraries, ten day itineraries and other ship schedules are also becoming more common as ships seek itinerary opportunities. Generally, a seven day itinerary is the lion share of the visitation to southeast and is based on a “3 ports and a glacier” model which initially included Vancouver or Seattle, Ketchikan, Juneau, and Skagway and Glacier Bay. The rest of the 7 day regional system can accommodate ***6 originating ships*** on any given day.

While Juneau contemplates **5** ships per day and a **5th** dock, the southeast itinerary already can handle **6**.

Lightering:

Currently ships at anchor lighter at a CBJ facility. One method of controlling growth would be to not provide lightering services; which would obviously be discouraging to ships wanting to anchor in Juneau. The Franklin Dock is on tidelands leased from CBJ, the lease ***prohibits*** lightering. The A.J. Dock is on tidelands leased from State DNR and has no such prohibition.

Freight Corridor/Road Congestion/Lack of New Tour Opportunities:

We should be prepared for enhanced roadway traffic this summer, including complaints and frustration. Most effected is South Franklin/Thane Road from the Rock Dump to Main Street. It is unclear where and how an additional 380,000 passengers in 2023 could enjoy tour opportunities. Juneau’s biggest tour opportunity is the Mendenhall Glacier, which accommodates about 700,000 visitors per summer. Whale watching and flight seeing are likely already near acceptable community maximums. Much of the growth in visitation has come to the AJ Dock, which creates proportionately more vehicle congestion (longest transit through the congested corridor).

Peak Tourism:

There is some community belief, particularly during the VITF process that we would eventually reach a natural limit to the numbers of ships and tourists that come to Juneau, or that the limit would be reached by the limits of available infrastructure. Given the 2023/4 visitation level, we should try very hard to ***truth test this assumption***. We have tremendous growth the next two summers ***without infrastructure addition***.

As a numerical comparison, we have projected an initial visitation to Eaglecrest (once the Gondola is installed) of 75,000 visits, growing to 192,000 in year twenty five. The increase in cruise ship passengers from 2019 to 2023 could be approximately double the long range Eaglecrest estimate (if the ships run close to full). In the short run *we are clearly adding far more visitors than tour opportunities.*

Ship Sizes/Historical Berthing:

Ships have incrementally increased in size over the last three decades. Time was in the early 2000's that a 700' long Holland America ship at the downtown docks was considered a big ship. The old Nieu Amsterdam had 1,200 passengers and that ship's berthing spot has been replaced by ships like the 983' long Koningsdam with 2,650 guests. Other lines have similar jumps as the Norwegian Star with 2,348 that was effectively replaced by the Bliss with 4,004. The industry maintains the historical pecking order, even when the ships grow dramatically.

Dock Pricing/Best Ship at Best Dock:

Disparity in dock pricing leads to inflexibility in berth scheduling – which stymies the “best ship at best dock” management theory. That theory is the idea that the port should holistically locate ships to achieve community goals, including limiting congestion. CBJ's docks are better located and are better quality facilities than the two private docks, yet charge less – effectively around \$5-7/passenger less. Ships won't give up a cheaper, better located, first class facility to move to an inferior more expensive location, *even if it is better for the port and the community.* Ongoing discussions with industry and dock owners are targeted at resolving this disparity. We have made slow and as yet unmeasurable progress on this topic.

Undiscussed Strategy - One Dock becomes a smaller ship dock:

Cruise lines logically maximize their use of our scarce resource – the scheduled ability to come to Juneau on any given day. If the lines are motivated to swap smaller ships out for larger ships (a long time trend), one strategy could be to court smaller ships (usually with passengers in a high economic bracket) by giving preference at a particular dock. This could accomplish two goals – maintain a diversified visiting demographic and provide a means to limit growth. The blend of public and private docks makes this *idea very difficult* to achieve. In terms of congestion, the logical outcome is that big ships would move to the subport and small ships would go to the privately owned AJ dock. Private businesses don't normally willingly give up business for a public purpose.

Congestion Management:

Doing a better job managing tourism downtown does not help on the tour side – managing downtown well does not create more tour opportunities. Also, by moving roughly a fifth or more of the visitation to the subport, we likely move about a fifth or more of the retail opportunity. It is unclear if this change makes year round activity downtown more or less likely. Some existing downtown retailers and/or restaurants may or may not think dispersing the density of passengers is a good idea. In fact, respondents to our public survey were evenly split on whether to spread visitors out across the Borough or confine tour activity to a few established areas.

Do the Math:

If a subport development (including a dock) costs the cited \$100M to \$150M and a dock owner wishes to recoup those costs, then let's do the math. A prudent private sector investor might wish to pay for a capital investment in a manner that generates profit and covers debt in a period shorter than the life of the asset. One fifth of 1.7M passengers is 340,000. Borrowing fifteen year debt at 5% interest to be paid by 340,000 passengers would cost each passenger around \$28. That is dramatically higher than other docking charges. One lesson in this is that we largely undervalue what it is worth to the cruise lines to come to Juneau, and/or the *value of completing* an NCL “constellation” is quite high. (NCL already has berthing agreements with Seattle, Ketchikan/Ward Cove, Icy Strait Point; Juneau is the missing piece of the puzzle). As a governmental entity, we are not privy to the details of these private agreements, even though they drive pressure on our situation. It seems quite likely that a lump sum project support from NCL could be part of that side car agreement. Regardless if a dock development is financed over time, or with an upfront sum, the funds are all derivative of passenger bookings.

Summary:

Even by doing no infrastructure improvements, cruise ship passenger visitation to Juneau is set to grow dramatically. A fifth cruise ship dock could be an effective tool for congestion mitigation and/or it could be the means to grow visitation. The Assembly and public need to be very mindful of the details and purposes that it

wants to achieve while it considers this important community decision. The 2023 calendar of substantially increased visitation calls into question some of our basic assumptions.

Hard and complicated decisions need to be made about the waterfront. And I think good to have some introspection and re-evaluation assumptions and reactions. Some good questions to ponder include:

- A. Is 1.7M passengers materially different than 1.5M or 1.3M? If so how and what should we do about it?
- B. At what point is a visitor's experience diminished and Juneau becomes a less desirable place to visit?
- C. Are we supportive of increased shoulder season visitation? (Note that retail and tour operators are not necessarily operational earlier and later, staffing is an issue).
- D. Do we understand the impacts on our housing market from the cruise ship economy?
- E. Is it a general area of agreement that there isn't community support for particular types of tours – notably whale watching or flight seeing?
- F. Are more tour options a need for Juneau as a community? This is similar to the better to concentrate or disperse tourism question.
- G. Is it even possible for cruise ship companies to self-limit visitation?

I can see persuasive arguments and opinions on all sides of these issues. COVID has changed the community and with two summers of little tourism, we are more informed on what a summer without cruise ships looks like, more informed about the economic effects. I expected the summer of 2022 to be a little jarring for the community with visitation returning to a high percentage of pre COVID levels. But, we had rather little community push back and complaint. Maybe this was because we are ready to be back to "normal" maybe because the ships weren't running full, maybe because tour operations weren't fully staffed up. It also rained a lot in 2022 and people stayed inside more.

It's hard to say what this summer will feel like to the community. Maybe the increase in visitation will feel incremental and acceptable or maybe the cumulative impacts of tourism will cross the line and Juneau residents will not have enough separation or a "break" from big ship days and we'll feel like we just boiled the frog - aka community good will.

I encourage introspection and consideration of all sides of these questions and issues. We need a respectful and thoughtful dialogue with and in the community.