



MEMORANDUM

DATE: March 30, 2023

TO: Maria Gladyszewski, Chair Assembly Committee of the Whole

FROM: Rorie Watt, City Manager

SUBJECT: State of the Visitor Industry 2023

This memo builds on the tourism discussion at the January 23, 2023 Lands, Housing, and Economic Development Committee. The intent of this document and the accompanying presentation and discussion is to help advance the Assembly's knowledge of this complex public policy issue from the multiple perspectives that contribute to public discourse around the visitor industry.

Too often, we talk about cruise tourism in very broad terms like total passengers per season and economic activity generated or in very specific terms from the public like flight seeing noise, whale watching boat wake, neighborhood impact. To better frame our discussions, it is important to acknowledge the varying and valid perspectives.

The cruise line perspective

Starting with cruise lines, the first thing to understand is that the Alaska market is in high demand. According to Bermello Ajamil and Partners, a cruise-industry focused planning and design firm (and authors of CBJ's Long Range Waterfront Plan), the Alaska market will grow from 4% of global market share in 2019 to 6% in 2023. This increase is significant considering the size of the global cruise markets. In individual discussions with cruise lines, most want to be good community partners and conceptually support our local initiatives. However, there is natural tension between the desire to be a good corporate citizen and the reality of being a publicly traded company predicated on growth. Simply put, everyone supports the concept of limits but everyone also wants to bring one or more new ships to Alaska. Juneau had 1.3 million visitors in 2019 and is projected to receive 1.67 million in 2023. 2024 is projected to see similar numbers to 2023 with the five ship limit in place.

Growth takes several different forms. We have all seen that ships are getting bigger. All the major lines are building new ships, most of which are either smaller luxury ships or extra-large 4,000 passenger plus ships. We're also seeing new itineraries and destinations added in an attempt to grow the industry by spreading visitation across more ports. Itineraries are becoming more creative, with lines moving away from the traditional seven day, three ports and a glacier model. Juneau plays an interesting role in this evolution. We are the mature, established Alaska port and we remain a top rated destination.

Traditionally, we have been considered a ‘linchpin’ port due to our size, location in the middle of the region, and shore excursion opportunities. Conventional industry wisdom is that marketable Alaska cruises depart on a weekend and include Juneau, and such itineraries will remain desirable. In discussions with the cruise lines, we have made the argument that not every ship needs to stop here and we’re starting to see lines sell itineraries of varying lengths and destinations. For example, Disney is adding a new ship in Alaska and it will not call in Juneau.

Growth over the past decades has meant larger ships and busier schedules in Ketchikan, Juneau, and Skagway. The future is more complex. Hoonah has added a new dock. Sitka has a double berth. A development in Klawock is on the horizon. Cross Gulf of Alaska itineraries and longer sailings departing out of San Francisco are becoming more common. The landscape in next 10 years is going to look very different from past 10 and growth will not follow the same trajectory. Juneau will continue to be a top selling port, but we can expect to see less predictable schedules, more diversified itineraries, and new developments in the region in years to come. This can be a good thing for Juneau as we consider the right size for our visitor industry. However, we’ll also likely see new market entrants. MSC and Virgin, global cruise lines with large ships, have both stated a desire to come to Alaska. While berths in Seattle and Vancouver are filling up, LA and San Francisco have space and Vancouver has stated plans to construct an additional berth.

Another consideration from the cruise line perspective is money. The graphic in the attached presentation shows that ultimately, it’s all the same money. A passenger buys a ticket on a cruise ship, and it pays for everything that ship does along its itinerary. That includes passenger fees, public and private dockage fees, and everything that happens on board the ship. This is important when we consider things like passenger fee allocations and public and private infrastructure investments. There are no funds that are not derivative of passengers – any private investment must be backed by visitation and under many scenarios (but not all) that would mean a growth in visitation. Cruise lines and private dock owners have fiduciary responsibility to their investors to maintain and grow profits. That responsibility is difficult to reconcile with community needs.

The shore excursion perspective:

Shore excursions are integral to the local tourism economy. Currently, shore excursion operators are almost all local businesses and employ a lot of Juneau residents. Many of our local operators are members of our community, and are conscious of the need to follow TBMP guidelines, be good stewards of the lands where they operate, work behind the scenes to support efforts to slow or limit growth, and to train seasonal staff to respect the needs of residents. In a healthy cruise tourism market, there are enough shore excursion opportunities to disperse passengers and mitigate the impacts of a large volume of people in town at once. There are two ways that shore excursion operators sell tours: Indirectly through the cruise line in a wholesale model, and directly through online bookings and sales booths. Shore excursions, of course, have impacts. Below is a description of some of the larger shore excursion markets and CBJ’s scope of management authority.

Flightseeing remains popular in Juneau and was the subject of extensive public process in the early 2000’s, which contributed to the creation of TBMP with some of the early guidelines addressing flight paths and operator behavior. Around the same time, CBJ set up a revolving loan program that allowed Wings of Alaska to convert its planes operating downtown to quieter turbine engines, which translated to fewer flights that are safer and shorter in duration. Flightseeing is also heavily regulated by the FAA and CBJ has virtually no influence over how helicopters and floatplanes operate. The State of Hawaii

launched a flightseeing task force in 2020 to evaluate options for regulation. The resulting bill, which would have required helicopter tour operators to submit monthly reports on their flight activity to the State Department of Transportation, was vetoed because the FAA does not permit state agencies to impose or enforce regulations on aircraft and the state would be unable to take any substantive action based on the information gathered.

According to a 2019 McKinley Research report, Juneau accounts for 60% of the Alaska whale watch market. Whale watching has relatively low barriers to entry and its own jurisdictional challenges. CBJ regulates behavior in its harbors, NOAA regulates behavior related to interactions with wildlife, and the Coast Guard regulates boater safety. TBMP and WhaleSense are valuable programs for voluntary compliance, but CBJ currently lacks any enforcement mechanisms. A new commercial float for whale watch and charter vessels was constructed at Statter Harbor in 2021, and it is already over capacity, with operators docking elsewhere in the harbor or at private facilities. It would be possible to set up a limited permitting system for docking at CBJ facilities. However, Docks & Harbors relies partially on fees from whale watching vessels and because D&H is an enterprise fund that is charged by Ordinance and motivated by increased private activity to fund its harbors. An enterprise fund driven system is not directed to determine and balance community needs. Moreover, a permitting system would not apply to private dock facilities.

Parks & Rec currently permits tour activity on designated CBJ trails based on recommendations from the Commercial Trails Working Group in 2004. While the commercial use list is old and in need of updating, the trail permitting system has worked relatively well for the past 20 years. The Rainforest Trail was constructed using Marine Passenger Fees in 2001 to mitigate resident concerns about tour use on Outer Point Trail. The Juneau Trails Plan, started by CBJ, the USFS, Alaska State Parks, and Trail Mix in 2019, is partially complete. Staff resources were directed elsewhere during the pandemic and we have not had the capacity to staff the project since. If there is a desire to complete this plan in the near term, we would likely need to hire a consultant. Staff estimates the cost of completion at \$60,000-\$80,000.

The U.S. Forest Service also bases its trail permitting off the Juneau Trails Working Group, and all of its commercially permitted trails are within the Mendenhall Glacier Recreation Area. The glacier currently sees 700,000 visitors per year, and the USFS has conducted an extensive planning process over the past six years to expand this capacity. The final product is likely several years away and funding is uncertain.

CBJ's 2022 Tourism Survey results are evenly split on whether to spread visitors out across the borough or to confine visitor operations to a few known area. Regardless of the direction the Assembly takes on dispersion versus condensation, Juneau appears to be nearing the point where shore excursion capacity does not meet demand. Without new opportunities, we will continue to see growth in markets that already feel 'full' (i.e. whale watching). If the Eaglecrest gondola is constructed in the next few years, we can expect just over 70,000 visits in the first year. The gondola certainly represents an opportunity for disbursement, but even at full projected capacity, it will not scale up enough to make a major difference. Shore excursion growth should be strategic. New activities should happen in locations supported by public process.

The Public Perspective

CBJ survey data on public perceptions of tourism has remained relatively unchanged over the past two decades. People generally feel that the benefits outweigh the impacts and also agree that CBJ isn't doing enough to manage tourism. It is a complex public policy issue and with so many competing but also

interrelated interests, jurisdictions and choices it is hard to understand the full effect of our tourism-related decisions. The VITF did a good job of synthesizing and reporting on public comments and making a set of moderate and balanced recommendations including establishing limits, building infrastructure that supports both the public and visitors, and getting more involved in ship scheduling. Staff is working on all these recommendations and more, but in the face of steady growth, it's easy to see why many residents feel that CBJ isn't doing enough. To be blunt, growth has happened faster than negotiated policy work.

We conduct surveys because we typically hear from the people who feel disproportionately affected, either positively or negatively, by the visitor industry. It's valuable to hear from a random sample of residents. However, each time there is a proposal for tourism activity in a new area, we hear from people who are concerned about being displaced. The Marine Passenger Fee budget has not yet gone to Finance. Based on the recommendations of the VITF and the recent Assembly discussion about the Pioneer Road, staff proposes moving \$100,000 - \$120,000 in Marine Passenger Fees off the Seawalk to fund a public process around commercial use throughout the borough. The policy component should be fairly straightforward, building on the work of the VITF, but we need a focused public process about the best areas of town for visitor industry activity and that has not yet taken place.

The Assembly Perspective

The Assembly is tasked with a number of big tourism decisions in the coming months, all of which are related to the issues discussed above. The proposed fifth dock is top of mind for many of you. Without some sort of detailed capacity agreement, a fifth dock will lead to growth. A larger ship can fit at dock than at anchor. Ships are getting bigger, and with more diversified itineraries, the traditional gaps in the schedule are filling. A fifth dock will also likely spread passengers through downtown and along the waterfront. It may catalyze seawalk development and bring more people to businesses outside of the South Franklin corridor. Like everything tourism-related, it comes with benefits and drawbacks.

The concept of Juneau's visitor "capacity" has been discussed for years as our volume increases. Some believe we are past our capacity and some feel that we have room to grow. At some point, highly rated destinations lose their appeal due to overcrowding and/or lack of infrastructure and services to manage volume. CBJ's current approach is to address concerns about growth through open communication and negotiated agreements with the industry. As discussed, a result of the recently signed five ship MOA is that visitation for 2024 is projected to be level with 2023 while other ports are growing. We have good relationships with most major cruise lines and with CLIA, and are treated as an example of a port that engages proactively. Our MOAs were highlighted in the keynote address at a global cruise conference last week. Our next steps are to enter into a contractual agreement with CLAA and become more involved in scheduling. The 'best ship at best dock' may take some experimentation before we know what works, but we anticipate having more influence over port operations.

We often see the perception that CBJ does whatever the industry wants, or that staff and the Assembly are beholden to industry might. The reality is more complex. The negotiated agreement approach is largely untested elsewhere in the world and presents new and challenging territory for the cruise lines. Beyond that, we only have blunt management tools at our disposal. We can close our lightering float. We can leave a city dock empty on certain days. We can move to acquire private docks. As anyone who was present for the CLIA lawsuit knows, these tools all come with consequences. It is critical that we decide what kind of destination we want to be in the future and use the right tools to meet the right outcomes. Regardless of the method or approach, Juneau is a mature destination and is long past the

point of being successfully patronized about community benefits or authentic experiences. Our most valuable asset should be the ability to understand the complexities of our local visitor industry and make strategic decisions based on complete information about the community-wide pros and cons of any given proposal.

In conclusion, there are no easy answers and while staff continues to push for a regional strategy, that is only a piece of the solution. Our goal with this memo and the accompanying presentation is to help the Assembly understand the intricacies of the situation so you can consider all the necessary factors in your difficult decisions ahead.

Summary of Recommendations:

1. Trail Plan Funding
2. Commercial Use Funding

Summary of Upcoming:

1. Adoption of Passenger Fee expenditures in the budget
2. Planning Commission consideration of the HTC Support Dock (date)
3. Record Cruise Ship Passenger Visitation this summer
4. Ongoing negotiations of Seawalk connection between AJ Dock & Franklin Dock
5. Contractual Relationship with Cruise Line Agencies of Alaska for scheduling and use of CBJ facilities under draft.

Attachments

- A. Slide Deck of Presentation by CLIA at Juneau Chamber
- B. CLIA letter regarding Huna Totem development