



MEMORANDUM

DATE: February 9, 2023
TO: Assembly Public Works and Facilities Committee
FROM: Alexandra Pierce, Tourism Manager
SUBJECT: Marine Passenger Fee Philosophy

This memo discusses my proposal for the expenditure of passenger fees (CBJ \$5 Marine Passenger Fee, \$3 Port Development Fee and \$5 State Commercial Passenger Vessel Fee). This proposal is made in accordance with the settlement that was reached with CLIA in March of 2019 and is designed to provide services and solve community issues related to cruise ship tourism.

The cruise industry holds a consensus view that Southeast Alaska sailings will exceed pre-pandemic levels in the summer of 2023. The scheduled lower berth capacity is estimated to be 1.65 million visitors for the summer 2023 season.

Here is how that forecast for visitation translates to passenger fee revenue in FY23 and FY24:

			PAX	MPF	PDF	State CPV*	Total
CY2022 Jul/Aug/Sept	FY2023		600,000	\$ 3,000,000	\$ 1,800,000	\$ 5,000,000	\$ 9,800,000
CY2023 April/May/June	FY2023		660,000	\$ 3,300,000	\$ 1,980,000		\$ 5,280,000
CY2023 Jul/Aug/Sept	FY2024		990,000	\$ 4,950,000	\$ 2,970,000	\$ 8,250,000	\$ 16,170,000
CY2024 April/May/June	FY2024		660,000	\$ 3,300,000	\$ 1,980,000		\$ 5,280,000

**State CPV receipts remitted to CBJ approximately eight months after they are received*

FY23 Passenger Fee Total \$ 15,080,000
FY24 Passenger Fee Total \$ 21,450,000

The absent 2020 cruise season and slow 2021 season still incurred operating and debt service expenses. As a result, we carried a negative fund balance of \$3.2 million into FY23. This is eliminated for FY24 and we can expect to carry a positive fund balance into FY25. Additionally, new U.S. Coast Guard security requirements translate to increased security expenses of approximately \$150,000 per dock. This was new for FY23 but will continue indefinitely.

FY24 Passenger Fee Proposal			
	Direct Cost	Overhead	Total
Debt Service: Juneau Cruise Terminal Docks	\$ 2,026,500	\$ -	\$ 2,026,500
CBJ Municipal Services			
Police Support	\$ 1,289,600	\$ 47,800	\$ 1,337,400
Ambulance/EMS Support	\$ 591,500	\$ 21,900	\$ 613,400
Seawalk, Open Space and Restroom Maintenance	\$ 426,100	\$ 15,800	\$ 441,900
Street Cleaning/Repair	\$ 192,900	\$ 7,100	\$ 200,000
D&H - Port Management	\$ 275,000	\$ 10,200	\$ 285,200
D&H - Port Customs Office Building Maintenance	\$ 142,000	\$ 5,300	\$ 147,300
D&H - Access Control Security	\$ 300,000	\$ 11,100	\$ 311,100
Tourism Management	\$ 229,000	\$ 8,500	\$ 237,500
CBJ Resident Tourism Survey	\$ 35,000	\$ 1,300	\$ 36,300
Cruise Ship Passenger Survey	\$ 35,000	\$ 1,300	\$ 36,300
General Economic Analysis	\$ 40,000	\$ 1,500	\$ 41,500
Total City Services	\$ 3,556,100	\$ 132,700	\$ 3,688,800
Third-Party Visitor Services by Assembly Grant			
Travel Juneau - Crossing guard program	\$ 294,200	\$ -	\$ 294,200
Travel Juneau - Visitor services program	\$ 165,200	\$ -	\$ 165,200
Tourism Best Management Practices (TBMP)	\$ 26,000	\$ -	\$ 26,000
Downtown Business Association Ambassador Program	\$ 90,000	\$ -	\$ 90,000
AJ Dock - Access Control Security	\$ 130,000	\$ -	\$ 130,000
AJ Dock - Restroom Maintenance	\$ 30,000	\$ -	\$ 30,000
Franklin Dock - Access Control Security	\$ 130,000	\$ -	\$ 130,000
Franklin Dock - Restroom Maintenance	\$ 30,000	\$ -	\$ 30,000
Seasonal Workforce Housing Planning	\$ 50,000	\$ -	\$ 50,000
Total 3rd Party Services	\$ 945,400	\$ -	\$ 945,400
Capital Investments			
Capital Civic Center	\$ 1,000,000	\$ -	\$ 1,000,000
Marine Park Improvements	\$ 2,000,000	\$ -	\$ 2,000,000
Homestead Park Improvements	\$ 1,000,000	\$ -	\$ 1,000,000
Wastewater Improvements	\$ 950,000	\$ -	\$ 950,000
Informational Signage	\$ 75,000	\$ -	\$ 75,000
Circulator Plan	\$ 20,000	\$ -	\$ 20,000
Seawalk Expansion	\$ 10,000,000	\$ -	\$ 10,000,000
Total Capital Investments	\$ 15,045,000	\$ -	\$ 15,045,000
Total Proposed FY24 Passenger Fee Expenditures	\$ 21,598,000	\$ 132,700	\$ 21,730,700

Using Passenger Fees:

Passenger fee funding for all CBJ municipal services and the related overhead is calculated by a third-party cost allocation consultant (Matrix Consulting) in compliance with applicable federal standards and industry best practices. Third-party visitor services are funded based on the settlement agreement and on discussions with CLIA as described therein. Of note, CLIA is supportive of funding for a study on the visitor industry's impact on Juneau's housing market.

Capital Investments:

Capital investments were previously limited by the negative fund balance carried forward from fiscal year 2022 and the likelihood of a slower than scheduled cruise season. At the time, CBJ received a number of worthy requests and we have budgeted funds to start some of the proposed projects, anticipating more funding in the coming years. Attachment A shows CBJ's long-term visitor infrastructure needs.

Notably, this year's budget dedicates \$10,000,000 to the Seawalk, anticipating agreement on a Franklin to AJ Dock connection. Other recommended infrastructure funding includes funding for reconstruction of Marine and Homestead Parks, \$1 million towards the Capital Civic Center, wastewater improvements that were originally funded for FY21, improved signage, and extra funds to finish the circulator study.

The above proposal represents a conservative approach that meets our debt and negative fund balance obligations, and lays the groundwork for future infrastructure priorities. The following sections will discuss passenger fee use in a larger context and provide some priorities to consider going forward.

Passenger Fees and cruise economics

The below chart provides a very high level overview of cruise economics. The key takeaway is that all public and private cruise tourism infrastructure in Juneau is paid for out of the same pot of money. As we contemplate how we use passenger fees and dockage fees, it is important to remember that private tourism development does not necessarily represent new economic activity and that public and private shoreside services are all competing for the same slice of revenue generated by cruise passenger bookings.



Dockage fees

Acknowledging the larger economic picture and the constraints associated with using passenger fees, it is important to recognize that passenger fees are one revenue stream for infrastructure maintenance. Another option is raising dockage fees to be more competitive with the private docks. Fees charged by the private docks demonstrate what the market will support. Past discussions about dockage fees at the Assembly level deferred to Docks & Harbors' rate study. That study recommended an 11% increase across the port and harbors. The report mostly focused on harbor rates.

Raising rates to be consistent with the private docks supports CBJ's efforts to achieve 'best ship at best dock' – if all docks cost the same, we eliminate financial barriers to moving ships around to mitigate congestion. We are in preliminary discussions with the industry about a model that will work for all parties. Under such a model, we can begin to contemplate a rational approach to passenger fee funding for all dock owners.

Private docks

Passengers arriving in Juneau on ships that dock at privately owned docks pay passenger fees to support shoreside services in the community. In recent years, CBJ has funded restroom maintenance and security for private dock owners. Additionally, CBJ and Princess Cruises jointly funded first-in-the-world shore power at the Franklin Dock.

Private dock owners typically submit passenger fee requests for maintenance and improvements and argue that all docks collect passenger fees, therefore all docks should receive the same level of maintenance funding. Currently, private docks generate more income in dockage than Docks & Harbors, and therefore are able to re-invest that money in infrastructure. If CBJ raises fees to parity with private docks, Docks & Harbors could operate on the same model, freeing up passenger fee funds to spend on

services and infrastructure improvements. With the possibility of an additional private dock, it is time to articulate a clear and rational process for funding all dock infrastructure, public and private. Under this model, the Assembly should consider several funding mixes:

- No passenger fee funding for maintenance at any dock
- Continue funding restrooms and security for all docks
- Fund restrooms, security, and a flat rate for maintenance for all docks
- Identify a list of reasonable expenses to be applied to all docks

Infrastructure Needs

This memo contemplates changes that shift the passenger fee budget toward major infrastructure projects. The FY24 budget includes \$10,000,000 for seawalk funding. Geotechnical work is scheduled to begin in March for a Franklin to AJ connection and a seawalk project would likely accompany a subport development. There is still a great deal of work to do, but we can safely anticipate funding seawalk projects in the near term.

Regardless of the eventual funding mix between passenger and dockage fees for the City docks, shore power should be considered a priority for passenger fee funding, likely through debt service. Docks & Harbors' bond package for dock electrification, along with FY23 passenger fee funding, should keep electrification at the CBJ docks moving forward and there are no additional FY24 funds proposed. When the project is ready to bid, there is a great deal of capacity for debt financing. We have a good idea of the infrastructure and investment needed to fund the City docks. Before considering additional dock electrification funding, it will be important to get a full picture of the opportunities and barriers associated with electrification at the AJ Dock or the Subport.

How Does a Fifth Dock Fit In?

Having a clear policy on funding for private docks will ease tension between public and private dock owners if a fifth dock is constructed. Additionally, it will be important to understand the public infrastructure needs associated with an additional dock and ensure they are adequately represented in the passenger fee budget. CBJ will also need to consider how a subport dock, and associated long-term berthing agreements, fits into our best ship at best dock objective.

Overall recommendation

I recommend that the Public Works and Facilities Committee consider the context and recommendations herein and refer the FY2024 Marine Passenger Fee budget to the Assembly Finance Committee.

Attachments:

Attachment A – Passenger Fee Infrastructure Needs FY24-28

Attachment B – Combined Passenger Fee Requests Table

Attachment C – Consolidated FY24 Passenger Fee Requests

Passenger Fee Infrastructure Needs FY24-28

	Total	FY24	FY25	FY26	FY27	FY28
Shore Power ASP+	\$ 20,000,000		bonding			
Shore Power CT-	\$ 10,000,000	\$ -				bonding
Seawalk South (Franklin to AJ)	\$ 25,000,000	\$ 9,500,000	\$ 15,500,000			
Seawalk Center (Triangle to Subport)	\$ 15,000,000	\$ 500,000			\$ 5,000,000	\$ 10,000,000
Seawalk North (Subport to Gold Crk)	\$ 10,000,000	\$ -		\$ 10,000,000		
NOAA Dock	\$ 10,000,000		\$ 1,000,000			
Small Cruise Ship Berth Facility (match)	\$ 10,000,000	\$ -			\$ 10,000,000	
Archipelago Museum	\$ 10,000,000		\$ 500,000			
Capital Civic Center	\$ 10,000,000	\$ 1,000,000				
Warner's Wharf	\$ 2,000,000	\$ -		\$ 2,000,000		
Fill Dock/Seawalk Holes	\$ 4,000,000	\$ -		\$ 4,000,000		
Marine Park	\$ 2,000,000	\$ 2,000,000				
USS Juneau Memorial Park	\$ 6,000,000	\$ -				\$ 6,000,000
Homestead Park	\$ 1,000,000	\$ 1,000,000				
Triangle Project (CLAW BACK)	\$ 2,000,000		\$ 1,000,000	\$ 1,000,000		
Visitor Circulator	\$ 170,000	\$ 20,000	\$ 150,000			
Waterfront Play Area	\$ 1,000,000			\$ 100,000	\$ 900,000	
Purchase AJ Dock	\$ 30,000,000	\$ -				
Purchase Franklin Dock	\$ 20,000,000	\$ -				
Float Franklin Dock	\$ 30,000,000	\$ -				
TOTAL	\$ 218,170,000	\$ 14,020,000	\$ 18,150,000	\$ 17,100,000	\$ 15,900,000	\$ 16,000,000