



<b>TRANSMITTAL MEMORANDUM</b>
-------------------------------

TO: The Honorable Mayor and City Council

FROM: Karl R. Amylon, City Manager

DATE: August 7, 2020

RE: **Analysis of Ward Cove Cruise Dock Impacts – McDowell Group**

On June 11, 2019, it was publicly announced that Power Systems & Supplies of Alaska in partnership with Godspeed, Inc. (collectively operating as Ward Cove Dock Group) would be developing a two berth cruise vessel facility in Ward Cove funded through a preferential berthing agreement with Norwegian Cruise Line Holdings. The facility was scheduled to open in 2020, but the COVID-19 pandemic resulted in the cancellation of all cruise sailings to Ketchikan in 2020. If Industry and Alaska's ports of call can adequately address the impacts of COVID-19, sailings to Ketchikan may resume in 2021.

To better understand the effects that Ward Cove cruise ship facilities may have on the City, the City Council on October 3, 2019 approved a professional services agreement with the McDowell Group to assess the financial impacts that the project may have on City operations. Attached for City Council review is the McDowell Group's final report. Assuming only Norwegian Cruise Line affiliated vessels utilize the new berths, the McDowell Group concluded that the City will likely incur an annual revenue loss (port fees, CPV tax revenues and sales tax revenues) of \$4.3 million for the period 2021 to 2029. If additional ships were to move from downtown to Ward Cove, annual lost revenues could range from \$5.8 million to \$11.6 million.

Finance Director Bob Newell has arranged for representatives of the McDowell Group to present an overview of the firms report at the City Council meeting of August 20, 2020.

October 3, 2019

**Award of Contract No. 19-34 – Padmounted Switchgear - Anixter, Inc.**

Moved by Williams, seconded by Flora the City Council accept the bid of Anixter, Inc. of Anchorage, Alaska in the amount of \$135,433 for Contract No. 19-34, Padmounted Switchgear; authorize funding from the Electric Division's Ketchikan International Airport and Pennock Island Upgrade Capital Account; and direct the general manager to execute the contract documents on behalf of the City Council.

Motion Passed with Flora, Zenge, Gage, Williams and Coose voting yea; Kiffer and Bergeron absent.

**Budget Transfer – Award of Contract No. 19-08, Mobile Substation Refurbishment – Specialty Engineering, Inc.**

Moved by Williams, seconded by Flora the City Council award Contract No. 19-08, Mobile Substation Refurbishment, to Specialty Engineering, Inc., of Vancouver, Washington at a cost of \$282,000; establish a \$5,000 contingency and a \$5,000 reserve for miscellaneous costs associated with prep and transport, bringing the total project cost to \$292,000; authorize the general manager to transfer \$92,000 from the Electric Division's 2019 Ward Cove Substation Improvements Capital Account to the Mobile Substation Refurbishment Capital Account; and direct the general manager to execute the contract documents on behalf of the City Council.

Motion Passed with Flora, Zenge, Gage, Williams and Coose voting yea; Kiffer and Bergeron absent.

**Award of Contract No. 19-32 – Three Chevrolet Colorado Pickup Trucks with Utility Boxes, Advanced Truck Body & Equipment Co.**

Moved by Williams, seconded by Flora the City Council accept the bid of Advanced Truck Body & Equipment Co. of Central Point, Oregon in the amount of \$118,335 for Contract No. 19-32, Three Chevrolet Colorado Pickup Trucks with Utility Boxes; authorize funding from the Telecommunications Divisions 2019 Vehicle Acquisition Capital Account; and direct the city manager to execute the contract documents on behalf of the City Council.

Motion Passed with Flora, Zenge, Gage, Williams and Coose voting yea; Kiffer and Bergeron absent.

**UNFINISHED BUSINESS** - None

**NEW BUSINESS**

**Professional Consulting Services for Analysis of Ward Cove Cruise Dock Impacts on City of Ketchikan Finances and Operations and Associated Budget Transfer – McDowell Group**

Moved by Williams, seconded by Coose the City Council authorize the city manager to enter into an agreement for professional services between the City of Ketchikan and McDowell Group at an estimated cost of \$38,500 for professional services related to an analysis of the impacts of the Ward Cove cruise dock on the City's finances and operations and up to \$5,000 in technical

support services; approve a budget transfer in the amount of \$43,500 from the Appropriated Reserves of the Economic Development and Parking Fund to the Tourism and Economic Development Department's 2019 Management and Consulting Services Account No. 640.04; and direct the city manager to execute Contract No. 19-38, Analysis of Ward Cove Cruise Dock Impacts on City of Ketchikan Finances and Operations on behalf of the City Council.

Manager Amylon said he has had further communications with the Department of Transportation. He informed they are not in the position to bring financial resources to the table, but they are interested in seeing what comes out of this report. He informed staff would be sharing the scope of service with them.

Councilmember Flora said he would like to understand better the value of this report. He felt the report staff sent to the U.S. Army Corp of Engineers summarized our concerns and impacts very well. He didn't feel another \$43,000 is needed to define the impacts.

Manager Amylon said whether we like it or not, if the Ward Cove project moves forward it will have impacts to our Ports and the General Government finances. He said if we want to get a handle on how we are going to deal with those issues, he would rather start planning now, rather than waiting for a determination that could be months down the road. He said he was trying to position the City in the best manner possible.

Councilmember Gage questioned when the Council would see this report.

In answer to Councilmember Gage, Manager Amylon said it would be at least a couple months. He stated the finance director is not here tonight, noting he has been the primary contact with the McDowell Group. He indicated he would follow up with the finance director, and let the Council know as soon as possible.

Councilmember Coose said he would support this, and felt in the long run this will help us and the local businesses. He indicated it will be a useful tool to have.

Motion Passed with Coose, Gage, Zenge, Williams and Flora voting yea; Kiffer and Bergeron absent.

**Application for Community Development Block Grant  
(CDBG) Funding – Women in Safe Homes (WISH) Domestic  
Violence Shelter**

Moved by Williams, seconded by Zenge the City Council authorize the city manager to prepare and submit a Community Development Block Grant application for required renovations to 623 Gateway Court (the former Ketchikan Regional Youth Facility) for Women in Safe Homes; and establish this application as the first priority Community Development Block Grant project for the City of Ketchikan for 2019.

Motion Passed with Flora, Zenge, Gage, Williams and Coose voting yea; Kiffer and Bergeron absent.

Moved by Williams, seconded by Zenge the City Council approve Resolution No. 19-2753 authorizing a Cooperative Agreement between the City of Ketchikan and Women in Safe Homes to participate in the submission of a Community Development Block Grant application; and establishing an effective date.

# Analysis of Ward Cove Cruise Dock Impacts

PREPARED FOR:

**City of Ketchikan**

June 2020

# Analysis of Ward Cove Cruise Dock Impacts

PREPARED FOR:

**City of Ketchikan**

**June 2020**

**McDowell Group Anchorage Office**

1400 W. Benson Blvd., Suite 510  
Anchorage, Alaska 99503

**McDowell Group Juneau Office**

9360 Glacier Highway, Suite 201  
Juneau, Alaska 99801

**Website: [www.mcdowellgroup.net](http://www.mcdowellgroup.net)**



# Table of Contents

---

<b>Executive Summary.....</b>	<b>1</b>
<b>Introduction and Methodology.....</b>	<b>5</b>
<b>Cruise Industry Overview .....</b>	<b>6</b>
Global Cruise Market.....	6
North American Cruise Market.....	7
Ketchikan Cruise Market.....	8
<b>Passenger Traffic and Port Fees.....</b>	<b>11</b>
Ward Cove Utilization.....	11
Projected Passenger Volumes .....	11
Projected Port Fee Revenue.....	11
<b>Passenger Spending.....</b>	<b>13</b>
Factors Affecting Passenger Spending.....	13
Ward Cove Passenger Spending.....	15
Downtown Passenger Spending.....	17
Passenger Spending Trends.....	18
<b>Financial Implications for the City of Ketchikan.....</b>	<b>19</b>
Commercial Passenger Vessel Excise Tax.....	19
Sales Tax.....	20
<b>Future Considerations.....</b>	<b>25</b>
Potential Variances.....	25
Other Factors to Consider .....	26
Impacts of Additional Ships Moving to Ward Cove.....	27
Property Tax Implications.....	29
<b>Dock Construction Economic Impacts and Property Tax.....</b>	<b>33</b>
Economic Impacts of Dock Construction .....	33
Dock-Related Property Tax.....	33
<b>Appendix A: Contacts .....</b>	<b>34</b>
<b>Appendix B: Port Time.....</b>	<b>35</b>
<b>Appendix C: Old Sitka Dock .....</b>	<b>36</b>

# Executive Summary

The Mill at Ward Cove is a new cruise ship dock development in Ketchikan being constructed in 2019-20. With investment from Norwegian Cruise Lines, the new dock is expected to draw NCL-family ships that would have otherwise docked in downtown Ketchikan. The City of Ketchikan contracted with McDowell Group to estimate the impacts of the Ward Cove dock development on City finances. This study estimates a range of mid-case impacts including docking fees; sales tax revenues from passenger and crew spending; and revenues from the Commercial Passenger Vessel Excise Tax (CPV). Because the full impacts of the COVID-19 pandemic are not yet known, and most of the analysis occurred before the pandemic, this study assumes pre-COVID market conditions; however, the 2020 season was removed from projections. Sources of information included Cruise Line Agencies of Alaska, City of Ketchikan reports, City sales tax data, the *Alaska Visitor Statistics Program*, and interviews with cruise industry experts, among others. Following are key findings of the study.

## Cruise Passenger Volume

Ketchikan cruise volume was estimated for the 2021-2029 period based on three annual growth rates: 1.5% (low-case), 2.5% (mid-case), and 3.5% (high-case). These projections are based on published cruise schedules and industry interviews; they do not take COVID-related impacts into account. The analysis of the financial impacts of Ward Cove assumes the mid-case scenario, with passenger volume growing from 1.34 million in 2021 to 1.64 million in 2029.

Ward Cove passenger volume is estimated at 280,600 in 2021. Passenger volumes for downtown versus Ward Cove assumes that all NCL-owned lines will use Ward Cove for the study period, that NCL traffic will hold steady through 2029, and that no additional lines will shift from downtown docks during that period. Potential variations from these estimates are discussed in the study. Ward Cove is projected to account for 21% of all Ketchikan cruise volume in 2021, decreasing to 17% by 2029.

### Estimated Ketchikan Cruise Passengers 2021 and 2029 (000s)

	Est. annual increase	2021	2029
Low-case	+1.5%		1,513
<b>Mid-case</b>	<b>+2.5%</b>	<b>1,343</b>	<b>1,636</b>
High-case	+3.5%		1,768

Source: McDowell Group estimates. Passenger counts are lower berth capacity plus 2.5%. Preliminary industry projections for 2021 were used to estimate passenger volume and are considered to be the mid-case.

### Estimated Ketchikan Cruise Passengers by Dock Location, 2021 and 2029 (000s)

	2021	2029
Downtown	1,062	1,355
Ward Cove	281	281
<b>% Ward Cove</b>	<b>21%</b>	<b>17%</b>

Source: Cruise Line Agencies of Alaska and McDowell Group estimates.

## Impacts on Port Revenues

Based on published port fees and expected cruise ship traffic, without Ward Cove, the City would have collected an estimated \$14.9 million in docking fees in 2021. With NCL ships moving to Ward Cove, that figure declines by \$3.1 million, to \$11.8 million. By 2029, the City is projected to have collected \$18.2 million annually without Ward Cove, and \$15.1 million with Ward Cove. (This analysis assumes that ships otherwise at anchor would switch to docking.)

## Impacts on CPV Fees

The City and the Ketchikan Gateway Borough each receive \$2.50 per passenger based on the State of Alaska's CPV tax program. If all ships called downtown in 2021, the city would collect an estimated \$3.13 million in CPV funds. With NCL ships shifting to Ward Cove, the City would collect \$2.45 million, a difference of \$684,000. Based on projected traffic, an all-ships-downtown scenario would have translated to \$3.80 million in CPV revenues to the City in 2029, and \$3.12 million under the Ward Cove scenario.

## Impacts on Sales Tax Revenues

The impacts of Ward Cove on sales tax revenues were analyzed for passenger and crew spending within city limits. This spending will be lower under the Ward Cove scenario than if all ships were to dock downtown: passengers and crew will have less time to spend downtown due to the transportation time to/from Ward Cove, and some spending will transfer from downtown to Ward Cove (outside city limits). The study team examined spending in four categories: retail, food/beverage, tours, and transportation. Tour participation and expenditures are anticipated to be the same with or without Ward Cove. Retail and food/beverage expenditures account for a significant portion of passenger spending in the city and are projected in the mid-case scenario to decline by 25% with Ward Cove development.

The analysis suggests that under the Ward Cove scenario, passengers will spend \$7.9 million less within city limits in 2021, resulting in a loss of \$436,000 in sales tax revenues. Crew spending in the city is estimated to be \$447,000 less under the Ward Cove scenario, resulting in a loss of \$18,000 in sales tax revenues. Added together,

### Estimated City Port Revenues, With and Without Ward Cove, 2021 and 2029 (\$000s)

	2021	2029
All ships downtown	\$14,928	\$18,189
With Ward Cove	\$11,809	\$15,069
<b>Difference</b>	<b>-\$3,120</b>	<b>-\$3,120</b>

Source: McDowell Group estimates. Includes fees for dockage, port expansion, passengers, and water. Based on ship lengths comparable to those scheduled for 2020.

### Estimated City CPV Revenues, With and Without Ward Cove 2021 and 2029, (\$000s)

	2021	2029
All ships downtown	\$3,131	\$3,802
With Ward Cove	\$2,431	\$3,118
<b>Difference</b>	<b>-\$702</b>	<b>-\$702</b>

Source: McDowell Group estimates based on average percentage of Ketchikan passenger volume eligible for CPV Excise Tax disbursement to the City of Ketchikan.

### Estimated Passenger and Crew City Spending and Sales Tax Revenues, With and Without Ward Cove, 2021 (\$000s)

	City Spending	Tax Revenues
<b>Passenger Spending</b>		
All ships downtown	\$234,589	\$6,057
With Ward Cove	\$226,732	\$5,619
<b>Difference</b>	<b>-\$7,857</b>	<b>-\$436</b>
<b>Crew Spending</b>		
All ships downtown	\$9,736	\$389
With Ward Cove	\$9,289	\$371
<b>Difference</b>	<b>-\$447</b>	<b>-\$18</b>
<b>TOTAL</b>		
<b>All ships downtown</b>	<b>\$244,325</b>	<b>\$6,446</b>
<b>With Ward Cove</b>	<b>\$236,021</b>	<b>\$5,990</b>
<b>Difference</b>	<b>-\$8,304</b>	<b>-\$454</b>
<b>Inc. dock fee tax revenues</b>		<b>-\$474</b>

Source: McDowell Group estimates.



passengers and crew are expected to spend \$8.3 million less within city limits under the Ward Cove scenario, resulting in \$454,000 less sales tax revenue in 2021. Sales tax revenues from lost port fees are estimated to represent an additional \$20,000 for a total impact of \$474,000.

## Summary of Financial Impacts City of Ketchikan

Adding together the impacts from lost port fees, CPV tax revenues, and sales tax revenues, the Ward Cove development is estimated to represent a total annual loss of \$4.3 million to the City of Ketchikan. These losses are assumed to stay constant for the 2021 to 2029 period, assuming that NCL traffic to Ward Cove is consistent over the period. (An analysis of downtown property values found that they are unlikely to be affected by Ward Cove therefore there are no anticipated impacts on property tax revenues.)

### Annual Impacts to City of Ketchikan Finances from Ward Cove, 2021-2029 (\$000s)

	Annual Loss
Port fee revenues	-\$3,120
CPV tax revenues	-\$702
Sales tax revenues	-\$474
<b>Total lost revenues</b>	<b>-\$4,296</b>

Source: McDowell Group estimates.

## Factors Affecting Estimated Impacts

There are a wide variety of factors that may result in higher or lower financial impacts than projected in this analysis, such as:

- Future ship deployments to Alaska and Ketchikan
- U.S. economic conditions
- Additional ships choosing to call on Ketchikan due to newly available dock space downtown
- Increased duration of port calls downtown due to available space
- Passenger and crew spending habits
- Tour operator response to Ward Cove in terms of schedules, pricing, and transportation
- The availability of retail, tour, and food/beverage options at Ward Cove
- The frequency and convenience of transportation between Ward Cove and downtown
- Potential increase in port call duration at Ward Cove.

These and other factors are discussed at length in the body of the report.

### ADDITIONAL SHIPS AT WARD COVE

The estimates presented in this study are based on the known number of NCL-owned vessels that intend to move from downtown docks to Ward Cove. Currently, it is unknown if any additional ships may move to Ward Cove, however Ward Cove will have capacity and may attract additional ships. If additional ships do shift from downtown, negative impacts from the loss of city revenues from passenger and crew spending, port fees (and associated tax collection) and CPV fees, would increase. The table

### Annual City Revenue Loss with Additional Calls at Ward Cove, 2021 (\$000s)

	160 Calls at Ward Cove	320 Calls at Ward Cove
Revenue loss	-\$5,232	-\$10,464
Tax loss	-\$576	-\$1,152
<b>Total loss</b>	<b>-\$5,808</b>	<b>-\$11,616</b>

Source: McDowell Group calculations.

shows the potential impacts to City finances if additional ships move to Ward Cove. This information is illustrative rather than a forecast of future events.

If Ward Cove attracted 160 port calls the City would lose \$5.2 million in port and CPV fees and \$576,000 in sales tax revenue, for a total impact of \$5.8 million. If Ward Cove attracted 320 port calls, the City would lose \$10.5 million in port and CPV fees and \$1.2 million in sales tax revenue, for a total impact of \$11.6 million.

# Introduction and Methodology

---

## Introduction

The Mill at Ward Cove is a partnership between the Ward Cove Dock Group LLC and Norwegian Cruise Line Holdings Ltd. The Ward Cove Dock Group is a partnership between Power Systems and Supplies of Alaska (owned by a Ketchikan family) and Godspeed Inc. (owned by a Fairbanks family). The project includes the development of a two-berth dock able to accommodate the largest ships currently visiting Alaska.

The City of Ketchikan contracted with McDowell Group to analyze the impacts of the Mill at Ward Cove on municipal dock revenues and taxes. The study was well underway when COVID-19 began to overshadow the planned 2020 cruise season in early March. The City chose to proceed with the analysis under a pre-COVID scenario. This report was prepared using historical data of actual cruise industry statistics through 2019 and projections for the 2020 and 2021 Ketchikan cruise ship seasons. The 2020 season was removed from the analysis due to the near-total cancellation of the season as of this report's publication.

The vision for the development is "Gateway to the Tongass," highlighting historic and current Tongass industries such as logging. Current plans include a transit facility, welcome center, museum, tour sales, retail, and food/beverage sales. Ketchikan Pulp Company facilities are being refurbished as part of the project. It is anticipated that future phases of the project will include additional tour, retail, and food/beverage options. Initial development of the site is expected to cost \$50 million, including design and construction of the dock, passenger terminal, and welcome center. Norwegian Cruise Lines will receive preferential docking as a partner in the project.

## Methodology

Data for this study was gathered from *Alaska Visitor Statistics Program*, *Ketchikan Summer Visitor Profile 2018*, *Cruise Industry News 2020 Annual Report*, Cruise Line Agencies of Alaska, various City of Ketchikan documents including Port revenue projections, and Ketchikan Gateway Borough gross sales and sales tax collection statements. Ward Cove Dock Group provided dock and uplands planning information and the proposed shuttle schedule. The study team conducted a site visit in December 2019. Over 20 interviews were conducted with City and Borough officials, the Ketchikan Visitors Bureau, tour operators, retailers, project developers, dock operators in Hoonah and Sitka, and cruise industry representatives.

Models were developed to estimate future passenger arrivals, City port fees, and CPV revenues, as well as passenger spending by category and associated sales tax collection at Ward Cove and within the City. Economic impact modeling included an assessment of employment and wages associated with Ward Cove dock construction. Horan and Company Appraisals provided an assessment of potential changes in core downtown retail property values and estimated Borough property tax revenue as a result of the Ward Cove development.

# Cruise Industry Overview

## Global Cruise Market

Globally, the number of operating cruise ships increased by 49% between 2012 and 2020 (from 284 to 423 ships), while berths increased by 50% (from 426,393 to 638,159). Known ship orders and withdrawals indicate the number of ships deployed globally was anticipated to increase by 23% between 2020 and 2027, and berth capacity by 33%. Cruise passenger capacity was expected to grow by 37%, from 29.5 million passengers in 2020 to 41.0 million passengers in 2027.<sup>1</sup>

The table below shows market share by destination. Caribbean/Bahamas cruise capacity represents 36.7% of the 2020 market. Alaska's share of the global cruise market declined from 4.6% to 3.9% between 2013 and 2017, then rebounded over the last several years, reaching 4.5% in 2020. Globally, Alaska is the fifth-largest region in terms of cruise market share.

**Estimated Market Share of Global Capacity by Region, 2012-2020**

	2012	2013	2014	2015	2016	2017	2018	2019	2020
Caribbean/Bahamas	39.3%	39.5%	42.2%	39.9%	38.4%	38.9%	38.4%	38.7%	36.7%
Mediterranean	20.9	19.6	17.7	17.9	16.1	13.6	14.2	14.8	15.8
Asia/Pacific	6.0	8.0	9.1	10.4	13.5	15.7	15.1	12.3	12.6
North/West Europe	8.2	9.4	9.0	8.5	9.2	9.0	9.4	9.4	9.6
<b>Alaska</b>	<b>4.4</b>	<b>4.6</b>	<b>4.2</b>	<b>4.1</b>	<b>4.0</b>	<b>3.9</b>	<b>4.0</b>	<b>4.4</b>	<b>4.5</b>
West Coast (Mexico)	3.0	2.3	3.5	4.2	3.7	3.3	3.3	3.5	3.8
South America	3.8	3.3	2.6	2.6	1.5	2.0	2.1	2.2	2.1
Australia	3.0	2.9	2.3	3.0	4.3	4.3	4.0	3.9	4.0
Canary Islands	2.4	2.0	2.1	2.3	1.9	2.0	2.1	2.0	1.8
Trans-Atlantic	1.8	1.6	1.4	1.4	1.4	1.3	1.4	1.3	1.3
Bermuda	1.4	1.1	1.2	1.2	1.5	1.2	1.3	1.6	1.3
Canada/New England	1.4	1.3	1.1	1.1	1.0	1.2	1.2	1.2	1.3
Hawaii	1.2	1.2	1.0	1.0	0.9	0.9	0.9	1.0	1.0
Indian Ocean/Red Sea	1.4	1.4	1.0	1.0	1.2	1.2	1.2	1.9	2.3
Africa	0.4	0.6	0.6	0.5	0.5	0.5	0.4	0.6	0.7
Panama Canal	1.0	0.7	0.5	0.5	0.4	0.5	0.4	0.5	0.4
Domestic Waterways	0.2	0.3	0.3	0.3	0.2	0.3	0.3	0.3	0.4
World	0.1	0.1	0.1	0.1	0.2	0.1	0.2	0.2	0.1
Antarctica	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.3

Source: Cruise Industry News Annual Report, 2020.

<sup>1</sup> Cruise Industry News Annual Report, 2020.

## North American Cruise Market

The North American cruise fleet grew 42% between 2016 and 2020, from 165 to 235 vessels, while passenger capacity increased by 22%. Prior to COVID, strong growth in passenger capacity (5% to 6% annually) was projected through 2024, with growth slowing in 2025. Between 2020 and 2027, passenger capacity was projected to increase by 33%.

**North American Fleet Changes, 2016-2027**

	2016	2017	2018	2019	2020	2021
<b>Ships</b>	<b>165</b>	<b>198</b>	<b>215</b>	<b>226</b>	<b>235</b>	<b>250</b>
Berths	272,288	276,430	307,647	328,608	345,088	363,695
Passenger capacity	13,344,442	13,714,726	14,589,061	15,578,061	16,267,323	17,121,530
<b>Change Pax. capacity</b>	<b>+2.3%</b>	<b>+2.8%</b>	<b>+6.4%</b>	<b>+6.8%</b>	<b>+4.4%</b>	<b>+5.3%</b>
	2022	2023	2024	2025	2026	2027
<b>Ships</b>	<b>272</b>	<b>281</b>	<b>285</b>	<b>291</b>	<b>294</b>	<b>296</b>
Berths	390,132	411,396	423,526	439,186	444,346	448,576
Passenger capacity	18,089,583	19,243,658	20,230,558	20,923,698	21,380,218	21,596,458
<b>Change Pax. capacity</b>	<b>+5.7%</b>	<b>+6.4%</b>	<b>+5.1%</b>	<b>+3.4%</b>	<b>+2.2%</b>	<b>+1.0%</b>

Source: *Cruise Industry News Annual Report, 2020*.

Note: Includes large and small ships. Ships, berths, and passenger capacity is net of new ships, withdrawals, and redeployments.

# Ketchikan Cruise Market

## Traffic and Market Share Trends

Ketchikan passenger volume increased by 33% between 2014 and 2019, from 884,500 to 1,171,600 (measured by actual arrivals).<sup>2</sup> Passenger volume (lower berth count) was anticipated to increase by 4% in 2020 to 1,223,000 passengers and by 10% in 2021 to 1,343,000 passengers.

Ketchikan's share of the overall Alaska cruise market declined from 96% in 2013 to 88% in 2019; further declines were projected for 2020 and 2021. Shrinking market share is attributable to capacity constraints and the addition of secondary ports like Icy Strait Point (Hoonah) and Sitka.

**Alaska and Ketchikan Cruise Passenger Volume, 2010-2019;  
2020 and 2021 Pre-COVID Projections**

Year	Alaska Cruise Passengers	Ketchikan Passengers	% Chg. Ketchikan	% of Alaska Market
2010	878,000	828,900		94%
2011	883,000	844,400	+2%	96%
2012	937,000	894,300	+6%	95%
2013	999,600	954,700	+7%	96%
2014	967,500	884,500	-7%	91%
2015	999,600	944,500	+7%	94%
2016	1,025,900	948,000	<1%	92%
2017	1,089,700	1,010,400	+7%	93%
2018	1,169,000	1,053,800	+4%	90%
2019	1,361,400	1,171,600	+11%	88%
<i>2020 projected</i>	<i>1,400,000</i>	<i>1,223,000*</i>	<i>+4%</i>	<i>85%</i>
<i>2021 projected</i>	<i>1,570,000</i>	<i>1,343,000*</i>	<i>+10%</i>	<i>83%</i>

Source: Cruise Line Agencies of Alaska and non-CLAA member lines, City of Ketchikan and McDowell Group estimates. Note: 2010-2019 figures are actual. \* 2020 and 2021 Ketchikan figures are based on lower berth capacity plus 2.5%.

<sup>2</sup> Lower berth counts are defined as two passengers per berth. Actual counts are the number of passengers that actually arrive on a ship. In Southeast Alaska actual arrivals have historically been 4% to 6% higher than lower berth capacity; actual volume in Ketchikan in 2019 was lower than normal at about 2.5% above capacity.

## Port Calls

Scheduled port calls in Ketchikan increased by 15% between 2016 and 2019, from 488 to 561, and were anticipated to increase by an additional 6% in 2020, pre-COVID. This includes all vessels that were scheduled to dock at a City or private dock, or anchor. In 2019, Ketchikan experienced 10 cancellations (carrying about 12,100 passengers), which was higher than average.

**Scheduled Ketchikan Port Calls,  
2016-2019, 2020 est.\***

Year	Port Calls	% Chg.
2016	488	
2017	511	+5%
2018	520	+2%
2019	561	+8%
2020	592	+6%

Source: City of Ketchikan Cruise Ship Tracking Schedule.

\*Note: Calls include sailings that were cancelled due to weather or other issues.

## Port Revenue

Cruise passengers arriving at a city dock are assessed a fee of \$7 per person; those on ships at anchor are charged \$4 per person. Fees for docking, port development, and water are based on vessel length.

The City of Ketchikan received over \$10 million in cruise-related fees in 2019, mostly attributable to passenger fees (\$8.1 million). Another \$1.2 million was attributable to docking fees, \$866,000 to port development fees, \$10,000 to lightering fees, and \$3,000 to water sales.

Cruise-related port fees increased by 21% between 2016 and 2019, from \$8.5 million to \$10.2 million. The sharp drop in water sales in 2019 (from over \$200,000 to \$3,000) was due to the exceptionally dry summer.

**City of Ketchikan Cruise-Related Port Revenue (\$000s)**

Category	2016	2017	2018	2019
Passenger fees	\$6,482	\$6,892	\$7,301	\$8,098
Docking fees	\$1,024	\$1,081	\$1,106	\$1,228
Port development fees	\$747	\$796	\$807	\$866
Water sales	\$206	\$210	\$256	\$3
Lightering fees	\$4	\$4	\$2	\$10
<b>Total</b>	<b>\$8,465</b>	<b>\$8,984</b>	<b>\$9,472</b>	<b>\$10,204</b>
<b>% Chg.</b>		<b>+6%</b>	<b>+5%</b>	<b>+8%</b>

Source: City of Ketchikan.

## Projected Passenger Arrivals

Ketchikan had expected 1.22 million passengers in 2020 and 1.34 million passengers in 2021.<sup>3</sup> As cruise schedules for 2022 and beyond are not yet available, projecting traffic beyond 2021 is challenging, particularly in light of COVID impacts.

Pre-COVID, North American passenger capacity was projected to increase by 4.3% annually from 2021 to 2027, slightly lower than the 5.7% annual growth rate from 2016 to 2021. While future deployments are unknown, it is likely that Alaska would have received a share of new deployments from 2021 to 2029.

While not fully developed, preliminary industry projections for 2021 were available and were used to estimate 2021 passenger volume. Low-, mid- and high-case passenger projections were then developed for 2022 to 2029 using conservative annual growth rates ranging from 1.5% to 3.5%. In the mid-case scenario of 2.5% annual growth, passenger arrivals would increase from 1.34 million in 2021 to 1.64 million in 2029.

**Estimated Ketchikan Cruise Passengers 2021-2029 (000s)**

2021		Est. annual increase	2022	2023	2024	2025	2026	2027	2028	2029
	Low-case	+1.5%	1,363	1,383	1,404	1,425	1,447	1,468	1,490	1,513
1,343	Mid-case	+2.5%	1,376	1,411	1,446	1,482	1,519	1,557	1,596	1,636
	High-case	+3.5%	1,390	1,438	1,489	1,541	1,595	1,651	1,708	1,768

Source: McDowell Group estimates. Passenger counts are lower berth capacity plus 2.5%.

<sup>3</sup> Cruise Line Agencies of Alaska and non-CLAA member lines and McDowell Group estimates. Based on lower berth capacity plus 2.5%.



# Passenger Traffic and Port Fees

In order to estimate economic impacts of the Mill at Ward Cove, it is first necessary to understand how passenger traffic and behavior are likely to change under the new scenario. This section further estimates the impact of Ward Cove on port revenues to the City of Ketchikan.

## Ward Cove Utilization

Assuming a full 160-day season, the Ward Cove dock has the capacity to host 320 port calls, at two ships per day. The pre-COVID 2020 ship schedule would have used about one-third of maximum capacity at 108 total calls, assuming all NCL family ships would have called there. (NCL owns Oceania Cruises and Regent Seven Seas Cruises). Based on ship capacity, this would have translated into 280,600 passengers.

**Ship Calls at Ward Cove, 2020 (Pre-COVID)**

Line	Ship	Port Calls	Passenger Capacity	Total Passengers
NCL	Norwegian Bliss	22	4,174	94,126
NCL	Norwegian Joy	23	3,887	91,636
NCL	Norwegian Jewel	18	2,376	43,837
NCL	Norwegian Sun	14	2,002	28,729
Oceania	Regatta	15	700	10,763
Regent	Seven Seas Mariner	16	700	11,480
<b>Total</b>		<b>108</b>		<b>280,570</b>

Source: Cruise Line Agencies of Alaska and the Mill at Ward Cove.

Note: Ship capacity is lower berth, total passenger counts are lower berth plus 2.5%.

## Projected Passenger Volumes

Under the scenario with six NCL ships shifting to Ward Cove, an estimated 1,062,200 passengers would have arrived in downtown Ketchikan in 2020, based on pre-COVID schedules. By 2021, downtown arrivals are estimated to increase to about 1.64 million, assuming Ward Cove passenger volume stays constant at 280,600. This assumption is made in the absence of specific NCL ship schedules beyond 2020.

**Projected Ketchikan Cruise Passengers by Location, 2021-2029**

	2021	2022	2023	2024	2025	2026	2027	2028	2029
<b>All Passengers*</b>	1,342,800	1,376,000	1,411,000	1,446,000	1,482,000	1,519,000	1,557,000	1,596,000	1,636,000
Downtown	1,062,200	1,095,400	1,130,400	1,165,400	1,201,400	1,238,400	1,276,400	1,315,400	1,355,400
Ward Cove	280,600	280,600	280,600	280,600	280,600	280,600	280,600	280,600	280,600
<b>% Ward Cove</b>	<b>21%</b>	<b>20%</b>	<b>20%</b>	<b>19%</b>	<b>19%</b>	<b>18%</b>	<b>18%</b>	<b>18%</b>	<b>17%</b>

Source: Cruise Line Agencies of Alaska and non-CLAA member lines. McDowell Group estimates. Figures have been rounded.

\*Passenger counts from 2021-2029 are lower berth plus 2.5% with estimated annual passenger growth of 2.5%.

## Projected Port Fee Revenue

The following table shows projected port revenues in 2021-2029 under two (pre-COVID) scenarios: the first with all ships continuing to call downtown, and the second with NCL ships shifted to Ward Cove. Note: City of

Ketchikan 2021 port fees will increase by 39% over 2020. If all ships called downtown in 2021, port revenues would have total nearly \$15 million. If NCL ships shifted to Ward Cove in 2021, port revenues would total nearly \$12 million, or 21% (\$3 million) less than the all-ships-downtown scenario.

The loss of port revenues to the City represented by Ward Cove is projected to stay constant at \$3 million between 2021 and 2029, under the assumption that Ward Cove traffic stays constant. Revenue from non-NCL ships is projected to increase over that same time period, from \$15 million in 2021 to \$18 million in 2029. This means that the percentage difference in port revenues between the all-ships-downtown and Ward Cove scenarios decreases from a 21% loss to a 17% loss over the 2021 to 2029 period.

**Estimated City Port Revenues, With and Without Ward Cove, 2021-2029 (\$000s)**

	2021	2022	2023	2024	2025	2026	2027	2028	2029
All ships downtown	\$14,928	\$15,298	\$15,687	\$16,076	\$16,477	\$16,888	\$17,310	\$17,744	\$18,189
With Ward Cove	\$11,809	\$12,179	\$12,568	\$12,957	\$13,357	\$13,769	\$14,191	\$14,625	\$15,069
<b>Loss of Port Revenue</b>	<b>-\$3,120</b>	<b>-\$3,120</b>	<b>-\$3,120</b>	<b>-\$3,120</b>	<b>-\$3,120</b>	<b>-\$3,120</b>	<b>-\$3,120</b>	<b>-\$3,120</b>	<b>-\$3,120</b>
% difference between Downtown and Ward Cove scenarios	-21%	-20%	-20%	-19%	-19%	-18%	-18%	-18%	-17%

Source: City of Ketchikan, Cruise Line Agencies of Alaska and non-CLAA member lines, and McDowell Group estimates.

Notes: Includes fees for dockage, port expansion, passengers, and water. Dockage, port development, and water fees are based on ship lengths comparable to those scheduled for 2020. This model assumes that 28 ships scheduled to be at anchor would dock downtown, using capacity previously occupied by NCL ships.

## Factors Affecting Passenger Spending

The study team considered multiple factors that could affect NCL passenger expenditures for tours, food and beverage, retail purchases, and transportation. The two most important factors in estimating NCL passenger spending in the City of Ketchikan are how much time they will have to shop and eat/drink, and access to the core retail district.

### Time in Port and Tour Times

A review of average 2019 port times revealed the Jewel, Joy, and Seven Seas Mariner had average port times of roughly eight hours. The Regatta averaged nearly nine hours, and the Norwegian Bliss averaged just over five hours.

**Average Length of Port Calls, 2019**

Ship	Average Hours in Port
Regatta	8.9
Norwegian Jewel	8.2
Seven Seas Mariner	8.2
Norwegian Joy	7.7
Norwegian Bliss	5.4

Source: Cruise Line Agency of Alaska.

The majority of Ward Cove passengers on tours normally starting downtown will have the opportunity to visit downtown if they have time after their tour. They will experience 30 to 40 minutes of additional travel time to transfer to and from Ward Cove compared to passengers that dock downtown. Tour operators and retailers interviewed for this study noted that passenger time downtown is already limited for passengers taking longer tours.

Passengers departing on tours in the Ward Cove/Harriet Hunt area and north will have the option of taking a shuttle downtown or potentially being dropped off by the tour operator downtown.

Bliss passengers who book tours will have the least opportunity to visit downtown because of their shorter port call time.

### Potential for Longer Port Calls at Ward Cove

Although not yet confirmed, ships arriving at Ward Cove could potentially increase port time by altering their navigational approach to Ketchikan. Northbound ships could approach Ward Cove by transiting north along Clarence Strait on the west side of Gravina Island at normal speed rather than transiting Tongass Narrows around Pennock Island at a 7-knot speed limit. This approach could shave perhaps an hour from transit time (each way) without affecting ship itineraries. Additional port time would allow passengers more time for shore excursions, spending on food and beverages, and retail purchases at Ward Cove and in the downtown area.

Contacts further noted the potential for fewer ship cancellations due to weather. In 2019, there were 10 cancelled calls due to poor weather, representing about 12,000 passengers. Weather is reportedly less of a factor at Ward Cove compared to downtown.

## **Ward Cove Passenger Circulation and Time Downtown**

There are three groups of passengers to be considered when assessing how much time passengers may have to shop, including passengers that pre-book a tour through the cruise line, those that book an independent tour, and passengers that do not participate in a tour. Mid-case project assumptions include:

- About 5% of passengers arriving at Ward Cove would not disembark.
- An estimated 50% to 55% of passengers that disembark at Ward Cove will take a tour they either booked through the cruise line or independently.
- All pre-booked passengers will be provided transportation from Ward Cove to their tour.
- Most passengers that book a tour independently will be picked up at Ward Cove, although a small number will make their way downtown and purchase a tour from there.
- Based on a review of historical tour departures for cruise passengers and a review of the proposed shuttle schedule, the study team estimates that about three-quarters of passengers that pre-book will take a tour south of town, one-fifth will depart north, and the remaining 5% will participate in a tour in the Ward Cove or Harriet Hunt area. The exact distribution of visitors that book tours independently is unknown, but the majority of those visitors are likely to take a tour south of town.
- There is a potential for some passengers on tours to be transported north of town on the Harriet Hunt road to the White River and depart for their tour from that location. The return trip could be via the northern route, but it seems more likely they would return through town.
- There will likely be some marine-based tours that board passengers at Ward Cove and likely end their tour in town.
- The Ward Cove Group intends to operate a shuttle service to and from downtown Ketchikan for passengers not provided transported as part of a tour.<sup>4</sup> Passengers would be transferred on a continuous shuttle loop from Ward Cove to downtown and back with departures every 15 minutes.
- There may be options for some passengers to use Ketchikan Gateway Borough public transit or private transportation such as taxis or ride-share.

A key assumption of this study is that most passengers arriving at Ward Cove will want to experience downtown Ketchikan and its retail opportunities, and that there will be adequate transportation moving visitors between Ward Cove and downtown. However, even with transportation options, there will be a reduction in downtown spending by Ward Cove passengers.

---

<sup>4</sup> Traffic Comparison Report and Proposed Shuttle Service Schedule, Ward Cove Group, Undated.

In a mid-case scenario, the study team estimates that passengers arriving at Ward Cove will spend about 25% less within city limits than if they had docked downtown. This reduction is a combination of a portion of passenger spending shifting to Ward Cove and reduced spending downtown. Passengers will have less time to shop downtown because of the increased transportation time. Passengers also tend to get nervous about missing last boarding call when they can't see their ship; some will return to Ward Cove earlier than necessary.

## Reduction in Ships at Anchor

With 108 port calls shifting to Ward Cove, there will be opportunities for ships normally at anchor to dock. There were 30 scheduled anchor calls in 2020, two of which (the Regatta) would move to Ward Cove. It is assumed that the remaining 28 ships, with about 34,000 passengers, would switch from anchor to dock, increasing shore time and passenger spending. The study team estimates that these passengers would spend an additional \$350,000 compared to if they were still at anchor.

## Ward Cove Passenger Spending

### Passenger Spending by Category and Location

NCL passengers are projected to spend \$4 per person on retail purchases, \$1 on food/beverage, and \$5 on transportation at Ward Cove in 2021. Additionally, passengers are projected to spend \$78 on retail purchases and \$7 on food/beverage with downtown businesses. NCL passengers are projected to spend \$53 on tours, regardless of where the tour originates.

In total, Ward Cove passengers are estimated to spend an average of \$138 per person in the City compared to \$166 if they docked downtown. This equates to a reduction in average passenger spending of about 17%, primarily driven by a 25% decline in retail and food/beverage spending. Following are brief discussions of study team assumptions regarding passenger spending.

Average per passenger spending estimates are derived from the *Alaska Visitors Statistics Program 7* (AVSP), based on summer 2016 spending, adjusted for inflation and weighted by cruise line volume. Spending assumptions by category are discussed below.

**Estimated NCL Passenger Per-Person Spending by Location, 2021**

Category	Spending at Ward Cove	Spending in City	Total Spending	Spending if Docked Downtown
Tours/activities	-	\$53	<b>\$53</b>	<b>\$53</b>
Retail	\$4	\$78	<b>\$84</b>	<b>\$102</b>
Food/beverage	\$1	\$7	<b>\$8</b>	<b>\$10</b>
Transportation	\$5	-	<b>\$5</b>	<b>\$1</b>
<b>Total</b>	<b>\$10</b>	<b>\$138</b>	<b>\$150</b>	<b>\$166</b>

Source: AVSP 7 cruise passenger expenditure data (2016) adjusted for estimated inflation and weighted by cruise line volume, McDowell Group estimates.

## **WARD COVE RETAIL**

Retail opportunities at Ward Cove will likely be limited in the first couple years of operations. The study team estimates that passengers would spend between 2% and 6% of their total Ketchikan expenditures at Ward Cove retail shops. A mid-point of 4% equates to about \$4 in retail spending at Ward Cove in 2021.

## **WARD COVE FOOD/BEVERAGE**

Food/beverage options will also likely be limited in Ward Cove's initial couple of years. Passengers are estimated to spend between 10% and 14% of their total Ketchikan food/beverage spending at Ward Cove, with a mid-point of 12%, or about \$1 on average.

## **WARD COVE TRANSPORTATION**

Average transportation spending is calculated based on the assumption that the 135,500 NCL passengers not on a tour will pay about \$10 for a downtown shuttle. This equated to about \$5 on average when all Ward Cove passengers are considered.

## **TOURS**

This analysis assumes that NCL passengers arriving at Ward Cove will take the same number of tours they have in previous years. Passengers will still want to experience all that the community has to offer, and it is in the cruise lines' interest to maintain tour volume and commission revenues. These passengers are estimated to spend \$53 on average for tours while in the community.

## **CITY RETAIL**

A reduction in downtown shopping time for Ward Cove passengers will have a spending impact. Passengers that use the shuttle will lose a minimum of 30-40 minutes (roundtrip) in transit plus some additional time waiting for shuttles. Passengers taking marine-based tours may also see some reduction in available shopping time. And, passengers are likely to return to Ward Cove to catch their ship sooner than necessary out of an abundance of caution. Taking these factors into consideration, Ward Cove passengers are estimated to spend about 25% less on retail purchases than they would have if their ship were docked downtown. Taking these factors into consideration, an average of \$78 per passenger is estimated for downtown retail spending.

## **CITY FOOD/BEVERAGE**

The factors affecting downtown retail spending will have the same impact on food/beverage spending. Passengers are further anticipated to prioritize shopping over dining (they have multiple dining options onboard). Spending on food/beverage among Ward Cove passengers is estimated at \$7 per person, 30% less than if they had docked downtown.

## Downtown Passenger Spending

According to past research, average spending among non-NCL passengers has been slightly higher than for NCL passengers. Passengers docking downtown in 2021 are projected to spend \$177 per person including \$69 for tours, \$96 for retail purchases, \$11 for food and beverage, and \$1 for transportation.

### Estimated Non-NCL Per-Passenger Average Spending, 2021

Category	Average Spending
Tours/activities	\$69
Retail	\$96
Food/beverage	\$11
Transportation	\$1
<b>Total</b>	<b>\$177</b>

Source: AVSP 7 cruise passenger spending data (2016) adjusted for inflation and weighted by cruise line volume; McDowell Group estimates.

## Passenger Spending Trends

The following table summarizes estimated mid-case passenger expenditures in Ketchikan with and without Ward Cove for the period 2021-2029 assuming annual passenger growth of 2.5%. The model assumes no change in overall tour sales in the community, nor in spending at Ward Cove. Potential future developments at Ward Cove are addressed later in this study.

Total passenger spending in 2021 in the absence of Ward Cove is estimated at \$235 million. With Ward Cove, spending in the city is estimated at \$227 million, a difference of about 3.4%.

While the spending difference of about \$8 million remains constant for the 2021-2029 period, overall spending is projected to increase along with passenger volume at downtown docks. Without Ward Cove, total city spending is projected to increase from \$235 million in 2021 to \$287 million in 2029; with Ward Cove, city spending is projected to increase from \$227 million to \$279 million over the same period.

**Projected Cruise Passenger City Spending With and Without Ward Cove, 2021-2029 (\$000s)**

Category	2021	2022	2023	2024	2025	2026	2027	2028	2029
<b>In City Without Ward Cove</b>									
Tour	\$88,164	\$90,454	\$92,869	\$95,284	\$97,768	\$100,321	\$102,943	\$105,634	\$108,394
Retail	\$130,592	\$133,780	\$137,140	\$140,500	\$143,956	\$147,508	\$151,156	\$154,900	\$158,740
Food/beverage	\$14,490	\$14,855	\$15,240	\$15,625	\$16,021	\$16,428	\$16,846	\$17,275	\$17,715
Transportation	\$1,343	\$1,376	\$1,411	\$1,446	\$1,482	\$1,519	\$1,557	\$1,596	\$1,636
<b>Total without Ward Cove</b>	<b>\$234,589</b>	<b>\$240,465</b>	<b>\$246,660</b>	<b>\$252,855</b>	<b>\$259,227</b>	<b>\$265,776</b>	<b>\$272,502</b>	<b>\$279,405</b>	<b>\$286,485</b>
<b>In City With Ward Cove</b>									
Tour	\$88,164	\$90,454	\$92,869	\$95,284	\$97,768	\$100,321	\$102,943	\$105,634	\$108,394
Retail	\$123,858	\$127,045	\$130,405	\$133,765	\$137,221	\$140,773	\$144,421	\$148,165	\$152,005
Food/beverage	\$13,648	\$14,014	\$14,399	\$14,784	\$15,180	\$15,587	\$16,005	\$16,434	\$16,874
Transportation	\$1,062	\$1,095	\$1,130	\$1,165	\$1,201	\$1,238	\$1,276	\$1,315	\$1,355
<b>Total with Ward Cove</b>	<b>\$226,732</b>	<b>\$232,608</b>	<b>\$238,803</b>	<b>\$244,998</b>	<b>\$251,370</b>	<b>\$257,919</b>	<b>\$264,645</b>	<b>\$271,548</b>	<b>\$278,628</b>
<b>Difference</b>	<b>-\$7,857</b>	<b>-\$7,857</b>	<b>-\$7,857</b>	<b>-\$7,857</b>	<b>-\$7,857</b>	<b>-\$7,857</b>	<b>-\$7,857</b>	<b>-\$7,857</b>	<b>-\$7,857</b>
<b>% difference</b>	<b>-3.4%</b>	<b>-3.4%</b>	<b>-3.3%</b>	<b>-3.2%</b>	<b>-3.1%</b>	<b>-3.1%</b>	<b>-3.0%</b>	<b>-2.9%</b>	<b>-2.8%</b>

Source: McDowell Group estimates.



# Financial Implications for the City of Ketchikan

Ships docking at Ward Cove instead of the downtown docks will have tax implications for the City of Ketchikan. City revenue from State commercial passenger vessel (CPV) excise tax, dockage fee taxes, and sales tax collection will all be impacted by the relocation of NCL ships to Ward Cove.

## Commercial Passenger Vessel Excise Tax

The State of Alaska levies a \$34.50 per-passenger fee on all cruise ships with 250 or more berths. The State remits \$5.00 per passenger to each of a ship's first seven ports of call in Alaska.<sup>5</sup> Because cities located within boroughs split the tax evenly, the City and the Ketchikan Gateway Borough each receive \$2.50 per passenger.<sup>6</sup>

In a 2021 scenario where all ships dock downtown representing 1.34 million passengers, CPV excise tax revenue is estimated at \$3.1 million, increasing to \$3.8 million by 2029. In a scenario with NCL ships shifted to Ward Cove, an estimated \$701,250 in CPV funds would be shifted to the Borough each year, based on 280,600 passengers at Ward Cove. CPV funds disbursed to the City of Ketchikan would be \$2.4 million in 2021, increasing to \$3.1 million in 2029. The difference of \$701,250 represents 22% fewer CPV funds in 2021, decreasing to 18% by 2029 as downtown ship traffic increases.

### Estimated City Commercial Passengers Vessel Excise Tax, With and Without Ward Cove, 2021-2029 (\$000s)

	2021	2022	2023	2024	2025	2026	2027	2028	2029
All ships downtown	\$3,133	\$3,209	\$3,289	\$3,369	\$3,451	\$3,536	\$3,623	\$3,712	\$3,804
With Ward Cove	\$2,431	\$2,507	\$2,587	\$2,667	\$2,750	\$2,834	\$2,921	\$3,011	\$3,102
<b>City CPV Revenue Difference</b>	<b>-\$702</b>	<b>-\$702</b>	<b>-\$702</b>	<b>-\$702</b>	<b>-\$702</b>	<b>-\$702</b>	<b>-\$702</b>	<b>-\$702</b>	<b>-\$702</b>
<b>% difference</b>	<b>-22%</b>	<b>-22%</b>	<b>-21%</b>	<b>-21%</b>	<b>-20%</b>	<b>-20%</b>	<b>-19%</b>	<b>-19%</b>	<b>-18%</b>

Source: McDowell Group estimates based on average percentage of Ketchikan passenger volume eligible for CPV Excise Tax disbursement to the City of Ketchikan. Figures have been rounded.

<sup>5</sup> Alaska Department of Revenue, Tax Division. *Commercial Passenger Vessel Excise Tax*.

<http://www.tax.alaska.gov/programs/programs/reports/Historical.aspx?20000>. Accessed April 2020.

<sup>6</sup> Alaska Department of Commerce, Community, and Economic Development, Division of Economic Development. *Commercial Passenger Vessel Excise Tax: Community Needs, Priorities, Share Revenue, and Expenditures*. February 2017.

<https://www.commerce.alaska.gov/web/Portals/6/pub/TourismResearch/00%20FULL%20CPV%20RPT%2016%202017.pdf?ver=2017-03-23-160339-903>. Accessed April 2020.

## Sales Tax

The City of Ketchikan levies a 4.0% sales tax, and Ketchikan Gateway Borough levies a 2.5% sales tax. Within city limits, sales are charged a combined 6.5% sales tax, whereas sales outside city limits within the borough are charged the 2.5% rate. In a scenario where NCL passengers arrive at Ward Cove, changes to City dockage revenues, passenger spending, and shore excursion starting locations may all impact City sales tax revenues.

### Dockage Fee Tax Collection

Downtown dockage fees are subject to a combined 6.5% sales tax (4% city tax). City sales tax collection from dockage fees would total \$96,000 in 2021 if all ships docked downtown, increasing to \$127,000 by 2029. In a scenario where NCL ships dock at Ward Cove, sales tax revenues from dockage fees would total \$76,500, a \$19,500 difference. With ships arriving at Ward Cove, city sales tax revenues would increase to \$107,500 by 2029 based on traffic increases.

**Estimated Dockage Fee Tax Collection, With and Without Ward Cove, 2021-2029**

	2021	2022	2023	2024	2025	2026	2027	2028	2029
All ships downtown	\$96,000	\$97,000	\$101,000	\$105,000	\$109,000	\$113,000	\$118,000	\$122,000	\$127,000
With Ward Cove	\$76,500	\$77,500	\$81,500	\$85,500	\$89,500	\$93,500	\$98,500	\$102,500	\$107,500
<b>City tax collection difference</b>	<b>-\$19,500</b>	<b>-\$19,500</b>	<b>-\$19,500</b>	<b>-\$19,500</b>	<b>-\$19,500</b>	<b>-\$19,500</b>	<b>-\$19,500</b>	<b>-\$19,500</b>	<b>-\$19,500</b>
% difference	-20%	-19%	-19%	-18%	-17%	-17%	-16%	-15%	-20%

Source: Source: City of Ketchikan Cruise Ship Tracking Schedule and 2021 port fee schedule. Taxes are based on dockage for ship lengths comparable to those scheduled for 2020.

### Passenger Spending Sales Tax Revenues

The projected annual reduction in passenger expenditures of \$7.9 million would result in a loss of \$436,000 in city sales tax revenues. Retail sales tax revenues is the largest component of this loss, with an expected \$269,000 reduction. While NCL passenger spending on tours is not expected to change, shifting tour start locations is projected to result in a \$122,000 reduction in sales tax revenues. Revenues by category are discussed below.

**Projected Passenger Spending Difference Between  
All Ships Downtown and Ward Cove Dock Scenarios, 2021-2029 (\$000s)**

	Annual Passenger Spending Difference	Annual Tax Collection Difference
Tour	\$0	-\$122
Retail	-\$6,734	-\$269
Food/beverage	-\$842	-\$34
Transportation	-\$281	-\$11
<b>Total difference</b>	<b>-\$7,857</b>	<b>-\$436</b>
% difference	-3%	-7%

Source: McDowell Group estimates.

## TOUR TAX REVENUES

While this study anticipates no change in passenger tour participation rates from Ward Cove operations, changes in tour transportation and locations impact City sales tax collection. Taxation of tour sales is complex, based both on where the tour begins and the type of transportation used. The following analysis of future city sales tax revenue is based on tour operations for a typical Bliss port call in June 2019.<sup>7</sup> This analysis assumes the sample port call is reasonably representative of the 2021 to 2029 period. Future tour options, locations, and transportation modes may vary somewhat from this analysis.

Shore excursion sales are subject to City and Borough sales tax; tour operators and transportation providers must remit sales tax when services are provided within each government's jurisdiction.<sup>8</sup> Cruise line commissions (a significant component of the retail price of a tour) are exempt from sales tax. Flightseeing is also tax-exempt, although only the flight component, not the ground transportation component. Estimated tax revenues were adjusted to account for tax exemptions.

Some shore excursions are taxed only by the Borough due to tour location or transportation of passengers to tour locations outside city limits.<sup>9</sup> When vessels move to Ward Cove, tours with operator-provided transportation will become subject only to borough sales tax because the excursions will begin outside city limits. Tours for which a third party provides passenger transportation from the dock will be subject to city sales tax only if the tour begins inside city limits.

Holland America Princess provides third-party transportation for several shore excursions sold by NCL, which would result is several tours subject only to Borough sales tax. It is assumed that this transportation relationship will continue after Ward Cove is operational. For these tours, there is no expected change in the city's ability to levy sales tax. However, there are select tours for which City sales tax will likely be subject only to Borough sales tax if passengers disembark at Ward Cove.

Movement of NCL vessels to Ward Cove will negatively impact City of Ketchikan's sales tax collection from shore excursions that previously originated within the City limits. The following table shows estimated shore excursion-related City sales tax revenue generated by NCL passenger tour spending if all NCL ships docked downtown. In this scenario, NCL tour sales are expected to generate \$199,000 in City sales tax revenue annually between 2021 and 2029. In a scenario where 280,600 passengers dock at Ward Cove, City sales tax from tour sales would be reduced by \$122,000, a difference of 61%.

**Estimated City Sales Tax Revenue from NCL Tours,  
With and Without Ward Cove, 2021-2029 (\$000s)**

	Annual City Sales Tax Collection
NCL downtown	\$199
NCL at Ward Cove	\$77
<b>Tax revenue difference</b>	<b>-\$122</b>
% difference	-61%

Source: McDowell Group estimates.

<sup>7</sup> Data was provided by Ward Cove Group and NCL.

<sup>8</sup> Cruise line shore excursion commissions are exempt from sales tax based on Ketchikan Gateway Borough statute 4.50.230 and City of Ketchikan statute 3.04.100 section (v). Flightseeing tours are exempt from sales tax by US Code Title 49 – Subtitle VII – Part A – Subpart i – Chapter 401.

<sup>9</sup> Conversation with Claire Kelly, KGB, Sales Tax Accounting Technician, March 10, 2020.

## RETAIL TAX REVENUES

If all ships docked downtown, city sales tax revenue from retail spending would have reached an estimated \$5.2 million in 2021, increasing to \$6.4 million by 2029. In the scenario with NCL ships docking at Ward Cove, city sales tax revenues are expected to be reduced by \$269,000 annually. With Ward Cove, retail sales tax revenues are estimated at nearly \$5.0 million in 2021, increasing to \$6.1 million in 2029.

**Estimated City Retail Sales Tax Revenue, With and Without Ward Cove, 2021-2029 (\$000s)**

	2021	2022	2023	2024	2025	2026	2027	2028	2029
All ships downtown	\$5,224	\$5,351	\$5,486	\$5,620	\$5,758	\$5,900	\$6,046	\$6,196	\$6,350
NCL at Ward Cove	\$4,954	\$5,082	\$5,216	\$5,351	\$5,489	\$5,631	\$5,777	\$5,927	\$6,080
<b>Tax revenue difference</b>	<b>-\$269</b>	<b>-\$269</b>	<b>-\$269</b>	<b>-\$269</b>	<b>-\$269</b>	<b>-\$269</b>	<b>-\$269</b>	<b>-\$269</b>	<b>-\$269</b>
% difference	-5%	-5%	-5%	-5%	-5%	-5%	-4%	-4%	-4%

Source: McDowell Group estimates.

## FOOD/BEVERAGE TAX REVENUES

City tax revenues from food/beverage sales are estimated at \$580,000 in 2021 with all ships docking downtown, increasing to \$709,000 in 2029. Under the Ward Cove scenario, food/beverage sales tax revenues are projected to be reduced by \$34,000 annually.

**Estimated City Food/Beverage Sales Tax Revenue, With and Without Ward Cove, 2021-2029 (\$000s)**

	2021	2022	2023	2024	2025	2026	2027	2028	2029
All ships downtown	\$580	\$594	\$610	\$625	\$641	\$657	\$674	\$691	\$709
NCL at Ward Cove	\$546	\$561	\$576	\$591	\$607	\$623	\$640	\$657	\$675
<b>Tax revenue difference</b>	<b>-\$34</b>	<b>-\$34</b>	<b>-\$34</b>	<b>-\$34</b>	<b>-\$34</b>	<b>-\$34</b>	<b>-\$34</b>	<b>-\$34</b>	<b>-\$34</b>
% difference	-6%	-6%	-6%	-5%	-5%	-5%	-5%	-5%	-5%

Source: McDowell Group estimates.

## TRANSPORTATION TAX REVENUES

While transportation is usually included in shore excursion packages, passengers sometimes hire taxis or make other transportation purchases unrelated to a tour. If all ships docked downtown, city sales tax revenues from transportation spending is estimated at \$54,000 in 2021, increasing to \$65,000 by 2029. Under the Ward Cove scenario, passengers are expected to spend less on transportation, resulting in reduced city sales tax of \$11,000 annually.

**Estimated City Transportation Sales Tax Revenue, With and Without Ward Cove, 2021-2029 (\$000s)**

	2021	2022	2023	2024	2025	2026	2027	2028	2029
All ships downtown	\$54	\$55	\$56	\$58	\$59	\$61	\$62	\$64	\$65
NCL at Ward Cove	\$42	\$44	\$45	\$47	\$48	\$50	\$51	\$53	\$54
<b>Tax revenue difference</b>	<b>-\$11</b>	<b>-\$11</b>	<b>-\$11</b>	<b>-\$11</b>	<b>-\$11</b>	<b>-\$11</b>	<b>-\$11</b>	<b>-\$11</b>	<b>-\$11</b>
% difference	-21%	-20%	-20%	-19%	-19%	-18%	-18%	-18%	-17%

Source: McDowell Group estimates.

## CREW SPENDING TAX REVENUES

Spending by cruise ship crew members represents an additional source of revenue for Ketchikan businesses. A survey of crew members in summer 2016 showed that over the course of a season, crew spend an average of about \$450 in Ketchikan while on shore leave, over half (62%) at groceries/pharmacies/Walmart. (Spending estimates have been adjusted for inflation.)

**Estimated Average Crew Spending per Season, 2021**

	<b>Average \$ Per Person</b>	<b>% of Spending</b>
Groceries/pharmacies/Walmart	\$278	62%
Restaurants	\$80	18%
Gifts/souvenirs	\$58	13%
Clothing	\$11	2%
Other	\$22	5%
<b>Total Per Season</b>	<b>\$450</b>	<b>100%</b>

Source: Ketchikan Cruise Industry Surveys, 2016, McDowell Group.

Note: Spending figures have been adjusted for inflation.

Ketchikan was scheduled to receive over 30,000 crew members in the 2021 season. Based on interviews, about two-thirds of crew members disembark in Ketchikan over the course of the season (some staff are working throughout the port call).

The table below shows two scenarios: one with all ships downtown, and one with NCL ships at Ward Cove. Under the all ships downtown scenario, applying the average spending of \$450 to the estimated number of visiting crew results in a total spending of nearly \$10 million, and City sales tax collection of \$389,000.

With NCL ships shifted to Ward Cove, it is assumed that the number of NCL crew members visiting downtown would decrease by 15% from the all ships downtown scenario, from 4,067 to 3,457. Crew shuttle service would provide pick-up and drop-offs at Ward Cove; there may also be opportunities for crew to ride passenger shuttle buses or use the Borough bus. With adequate transportation, Ward Cove crew with the day off are anticipated to behave as they have previously. Increased travel time will result in slightly reduced spending (\$400, rather than \$450) due to their decreased time downtown.

These assumptions result in a 5% decrease (\$447,000) in total spending, and a 5% decrease (\$18,000) in sales tax revenues, due to NCL crew members being shifted from downtown to Ward Cove.

**Estimated Crew Expenditures, With and Without Ward Cove, 2021**

Location/Category	Crew Arrivals	Crew That Disembark and Visit Downtown	Avg. Spending	Total in City Expenditures	City Sales Tax Collection
<b>All ships downtown</b>					
NCL Crew	6,162	4,067	\$450	\$1,830,000	\$73,000
Non-NCL Crew	26,619	17,569	\$450	\$7,906,000	\$316,000
<b>Total</b>	<b>32,781</b>	<b>21,635</b>		<b>\$9,736,000</b>	<b>\$389,000</b>
<b>With Ward cove</b>					
NCL Crew	6,162	3,457	\$400	\$1,383,000	\$55,000
Non-NCL Crew	26,619	17,569	\$450	\$7,906,000	\$316,000
<b>Total</b>	<b>32,781</b>	<b>21,026</b>		<b>\$9,289,000</b>	<b>\$371,000</b>
<b>Difference in spending</b>				<b>-\$447,000</b>	<b>-\$18,000</b>
<b>% difference</b>				<b>-5%</b>	<b>-5%</b>

Source: McDowell Group calculations. Spending data from *Ketchikan Cruise Industry Surveys 2016*, prepared by McDowell Group for Ketchikan Gateway Borough. Note: Crew spending is inflation-adjusted. Total expenditure and sales tax figures have been rounded.

# Future Considerations

---

The financial impacts of the Ward Cove development on the City of Ketchikan presented in the preceding chapter are based on the known number of ships and passengers projected to move to Ward Cove and the estimated mid-case, pre-COVID, passenger growth scenario from 2021 to 2029. There are multiple factors that could result in higher or lower CPV collection, port fees, in-city expenditures, and city tax collection including:

- Changes in ship deployments, either to Alaska, within Alaska, or between Ward Cove and downtown
- Changes in passenger/crew spending in Ketchikan
- Type and scale of retail, food/beverage, and tour options available at Ward Cove
- Tour operators' adjustments to tour offerings, pricing, and duration in response to Ward Cove development
- Shuttle service cost and convenience.

Predicting specific financial outcomes from this mix of complex factors is not possible without more detailed information. The following discussion is provided to frame potential variances from the assumptions made in this analysis.

## Potential Variances

### Low-Case Passenger Volume

Ship deployments to Alaska and Ketchikan grew significantly from 2015 to 2019 for both Alaska and Ketchikan. However, the industry has seen large fluctuations in the past: traffic declined by 9% in 2006, by 11% in 2010, and by 7% in 2014, before recovering each time. Factors in the declines included an economic recession, competition from Asia, and industry response to taxation. Ship deployments are influenced by market demand, economic conditions, capacity, and profitability of destinations and individual ports. Any of these factors could result in reduced Ketchikan ship traffic in the future. If Ketchikan passenger volume were to increase at a lower rate than the projected 2.5%, the impacts of Ward Cove on the City of Ketchikan would be greater. For example, a low-case annual growth rate of 1.5% would result in about 250,000 fewer passengers docking downtown between 2022 and 2029 than the mid-case scenario assumed for this analysis.

### High-Case Passenger Volume

On the positive side, Alaska continues to be a desirable destination and is perceived as "safe" compared to other regions around the world. Alaska has also proven to be financially rewarding to the cruise industry. As of 2019, the industry continued to build new and larger ships, some that would likely be deployed to Alaska and Ketchikan. If Ketchikan passenger volume were to increase at the high-case annual rate of 3.5%, about 268,000 additional passengers would dock downtown between 2022 and 2029, compared with the mid-case scenario assumed for this analysis.

## Crew Volume

The volume of crew arriving in Ketchikan between 2021 and 2029 would rise or fall with the number of ships and ship size and be subject to the factors mentioned above.

## Other Factors to Consider

- The estimates presented in this study are based on the known number of NCL-owned vessels that intend to move from downtown docks to Ward Cove. However, Ward Cove will have capacity and may attract additional ships. The loss of city revenues from passenger and crew spending, port fees (and associated tax collection), and CPV fees would increase in accordance with vessel length and passenger volume. (See next section for more details.)
- Average passenger and crew spending could be higher or lower than estimated, resulting in higher or lower tax collection than estimated.
- If port times are extended at Ward Cove, the loss of tax revenues would be less than estimated in this study.
- If spending opportunities at Ward Cove (such as retail and dining) increase significantly, City tax collections could decline more than estimated. Specific plans for Ward Cove development beyond Phase 1 are currently unknown.
- The frequency, capacity, cost, and convenience of pick-up/drop-off locations of transportation between Ward Cove and downtown will impact the ability of passengers and crew to spend money in the city. It is in the best interest of the City and its businesses to facilitate convenient and reliable transit and drop-off locations in close proximity to the city center. Tour guides should be encouraged to clearly inform passengers of the transportation options and suggest visiting downtown after their tours.
- Easing foot traffic congestion in the downtown core may increase satisfaction and induce additional spending. One contact noted that at peak traffic times, retailers have reported decreased spending because crowded sidewalks and shops overwhelm passengers.
- With congestion eased at downtown docks, there is potential for downtown ships to lengthen their calls, allowing passengers more time and spending onshore.
- Shifting some cruise ships to Ward Cove will lessen general congestion and improve safety in Ketchikan's busy harbor including floatplanes, fishing boats, tour vessels, etc.



## Impacts of Additional Ships Moving to Ward Cove

The following discussion provides additional information regarding impacts to City finances if additional ships move to Ward Cove. This information is illustrative rather a forecast of future events.

As discussed previously, in the 2021 mid-case scenario, with 108 port calls (17% of total calls), 280,600 passengers arriving at Ward Cove are estimated to spend \$7.9 million less than if they had arrived downtown, resulting in reduced city tax collection of about \$436,000. The \$7.9 million reduction in spending represents a decline of 3.3% in passenger spending in the city. These reductions are a combination of some spending shifted to Ward Cove and less spending in the city, primarily resulting from time constraints.

A loss of \$436,000 combined with a loss of \$18,000 in taxes from crew spending and \$20,000 in dockage fee taxes would result in a total loss of \$474,000 for the City.

Based on average vessel length of 960 feet and passenger volume of 2,100, each additional ship and passenger that moves to Ward Cove would result in a loss of City revenues and taxes of:

- \$27,450 in port fees per call.
- \$200 in dockage tax collection.
- \$5,250 in CPV collection.
- Average per passenger spending for retail, food/beverage, and transportation loss of \$28 and \$1.12 in tax collection.
- Average loss of about \$0.44 per passenger in tour sales tax collection. Note: the average tax loss is based on the assumption that per passenger tour spending will not change; however, city tax collection will decline due to the complex methodology used to tax tour sales and shifting pick-up locations within the Borough.
- Loss of \$4,140 in crew spending and \$166 in tax collection per ship.

One-quarter of the estimated 2021 port calls (160 out of 640 calls) would represent 50% occupancy at Ward Cove assuming a 160-day season and two ships per day. This would result in an estimated loss of \$5.2 million in City revenues and \$576,000 in tax collection. In total, the City would forgo \$5.8 million.

In a scenario where Ward Cove hosted two ships every day for a 160-day season (320 calls), the City would forgo \$10.5 million in revenue and \$1.2 million in tax collection for a total loss of \$11.6 million.

### Summary of Lost Revenue with 25% and 50%, of Port Calls at Ward Cove, 2021

# Calls at Ward Cove	% of Est. 2021 Ktn Ship Calls	Total Revenue Loss	Total Tax Loss	Total Loss to City
108 calls	17%	\$3,822,000	\$474,000	\$4,296,000
160 calls	25%	\$5,232,000	\$576,000	\$5,808,000
320 calls	50%	\$10,464,000	\$1,152,000	\$11,616,000

Source: McDowell Group calculations. Figures have been rounded.

**By Category, City Revenue and Tax Loss, with 25% and 50% of Port Calls at Ward Cove, 2021**

<b># Calls at Ward Cove</b>	<b>Pax</b>	<b>Port Fees Loss</b>	<b>Dockage Tax Loss</b>	<b>CPV Loss</b>	<b>Pax Spending Loss</b>	<b>Tax Loss</b>	<b>Crew Spend Loss</b>	<b>Crew Tax Loss</b>
108 calls	280,600	\$3,120,000	\$19,500	\$702,000	\$7,856,800	\$436,000	\$447,100	\$18,000
160 calls	336,000	\$4,392,000	\$32,000	\$840,000	\$9,408,000	\$517,500	\$662,400	\$26,500
320 calls	672,000	\$8,784,000	\$64,000	\$1,680,000	\$18,816,000	\$1,034,900	\$1,324,800	\$53,000

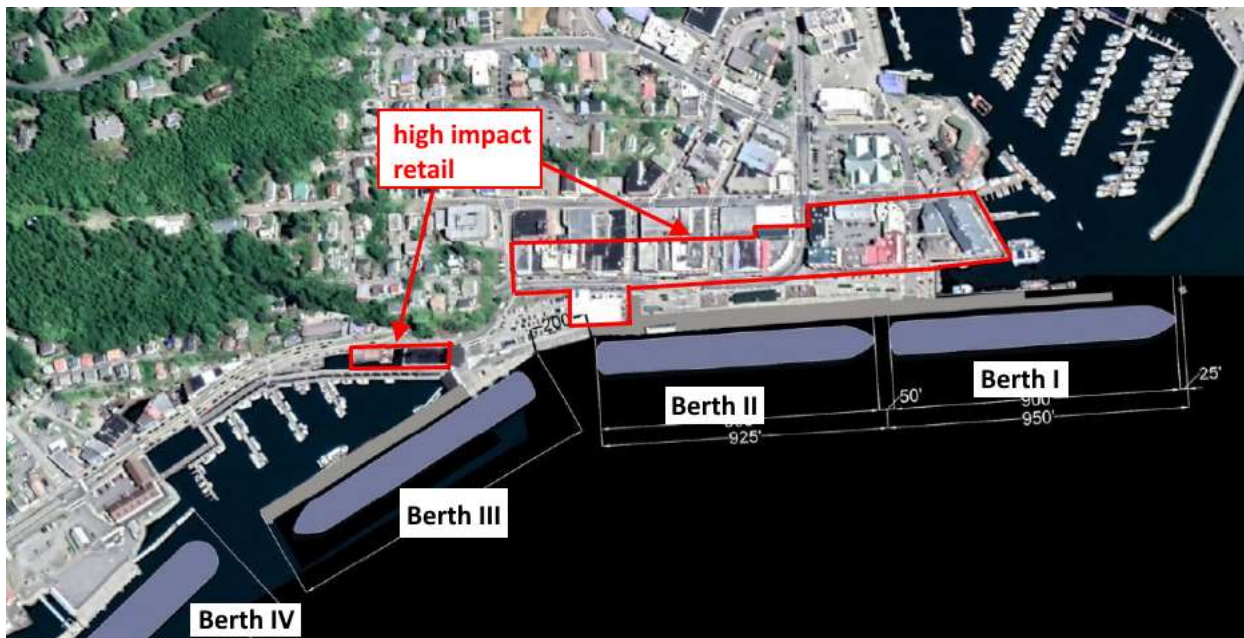
Source: McDowell Group calculations. Figures have been rounded.

## Property Tax Implications

Horan and Company Appraisals assessed potential impacts to downtown property valuations that may result from the Ward Cove development. The effective date of this analysis is May 2020 and assume pre-COVID conditions.

The figure below defines the area from which a typical sampling of real estate property assessment value trends have been observed.

**Figure 1. High Commercial Retail Impact Area for Cruise Ship Passenger Traffic**



Source: City of Ketchikan Cruise Ship Dock Development RFP.

### Core Area

Previous Horan and Company studies indicate the most significant impacts of cruise ship passengers on shoreside real estate is generally confined to the narrow corridor with the highest retail spending and therefore rents. This situation has been demonstrated in other Southeast communities such as in Juneau along the 300 and 400 block of South Franklin Street and in Skagway along Broadway. Ketchikan has a similar area along Front and Mill Streets, and Salmon Landing near Berths I, II and III as outlined in Figure 1. A significant portion of passenger expenditures occur within this highly visited area, and properties in this zone would likely be the most impacted by a decline in passenger spending. The rate of spending in the broader neighborhood and the resulting impact on rents/property values are not as affected by cruise passenger direct spending, although this area is impacted by demand for employee housing, storage, and lower volume retail. This analysis is confined to the core area where the highest retail rents and resulting property values are most significantly impacted by the presence of a large volume of passengers.

### Methodology

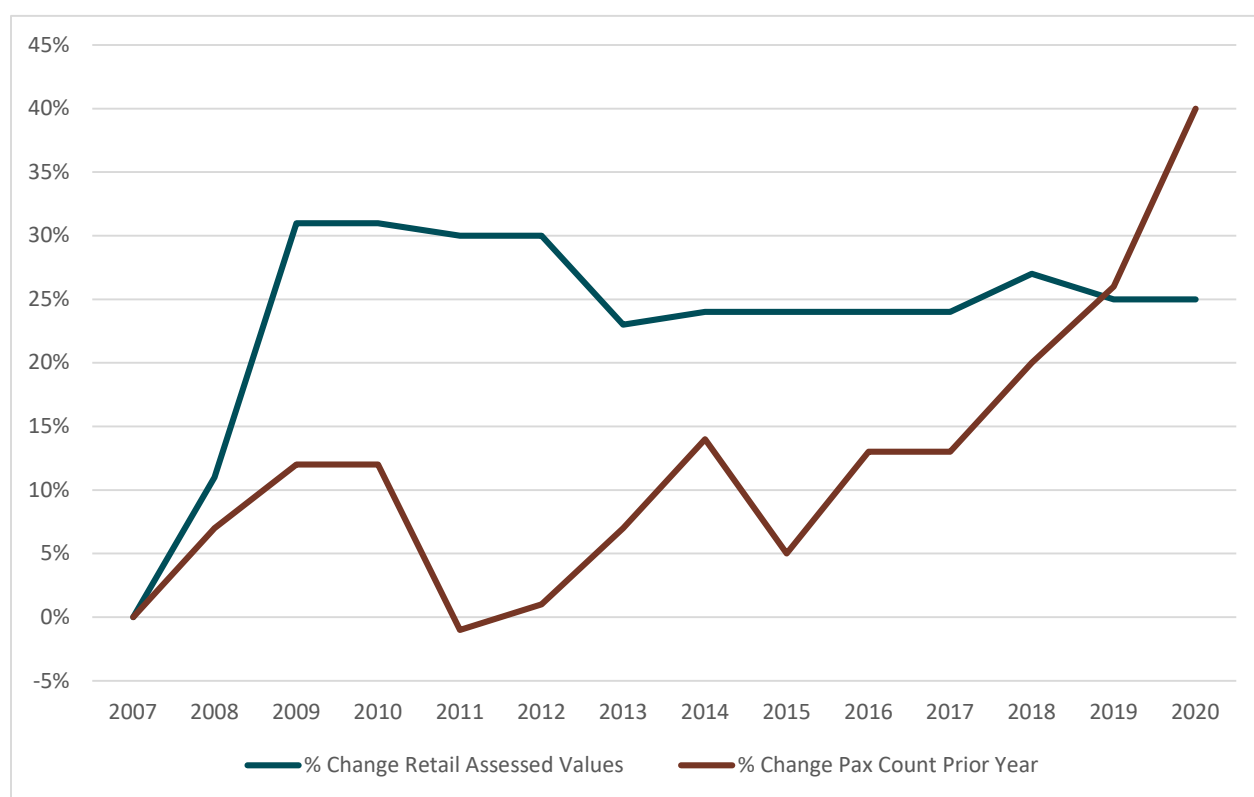
An analysis was conducted comparing changes in passenger volume and tax assessment from 2007 to 2020. During this period, there were significant increases and decreases in passenger volume. Looking at nearly two

decades of data provides a long-term view of how property valuations change in relation to passenger volume. The Ketchikan Gateway Borough (KGB) assessor is charged with estimating full and true value (AS 29.45.060) for each taxable parcel in an equitable manner. Given the limitations of workforce and budget, mass appraisals are performed on a cyclical basis and tend not to be as precise as individual property valuation. The KGB is currently on a four-year cycle to reinspect and recalculate estimated values. The KGB assessor indicated that the core area is due for a revaluation soon. By necessity, this cyclical revaluation is constantly catching up on whether property values are going up or down.

## Historic Passenger Volume and Property Values

The following graph shows the percentage of assessed value changes for properties in the core area overlaid by cruise ship passenger volume from 2007 to 2020. The prior year passenger count is compared to the current year's assessment because it is presumed that the following year's assessed value dated January 1 would reflect the market impact, if any, of change in passenger volume from the prior year.

**Figure 2. Ketchikan Assessed Retail Values and Passenger Counts**



Ketchikan passenger volume roughly doubled in the 10 years between 1996 and 2005, then stalled, in part due to lack of dock capacity. With the addition of Berth III in 2007 and Berth IV in 2008, passenger volume quickly increased. There was an increase in assessed values from 2007 to 2009; presumably the values trended upward to “catch up” with increases in passenger volume, spending, and increasing rents. Passenger volume then declined with the economic downturn of 2010-2011.

The graph indicates that assessments do not respond swiftly to changes in passenger volume and associated spending. Assessed values rose 30% during the catchup period between 2007 and 2009 then remained flat

through 2012. There was a 7% drop in 2013 (presumably due to another revaluation). Assessments were relatively unchanged from 2013 through 2020 even as passenger volume significantly increased.

Values for retail space in the core is driven by rents, which are driven by gross sales, which respond to the volume of cruise ship passenger visitation. Individual businesses vary greatly in gross sales per square foot because of store location, retail mix, design, and marketing. Also, retail sales are driven by passenger spending trends which can change by ship and by year.

As the commercial retail markets responded to the significant increase in passenger volume in the mid-2000s, there was a corresponding spike in retail rental rates. The swiftly rising rents resulted in rapid tenant turnover, and many businesses failed due to the financial strain of the highest rents. In recent years, the market has matured, and the rental rates have settled at a more stable level. These more stable rents reflect the general state of the valuation of the affected real estate.

## Conclusion

These indicators suggest the following:

- The assessed value of properties most likely to be impacted by cruise ship passenger visitation have not changed significantly over the past eight years or so even as passenger visitation has fluctuated 10%-25%.<sup>10</sup>
- The 2019 data charted with the 2020 assessment suggests that the cruise ship passenger visitation rate of increase has finally surpassed the rate of increase of the assessed values from the base year 2007.
- The assessed value of these properties is due to be updated in the near future.
  - If their values increase, it will likely be due to the need to catch up from values that have been low.
  - If the rents and values of properties in the neighborhood are stable relative to the past assessment revaluation, a significant change in the assessment is unlikely.
- If passenger counts dropped 30% (reversing 2020 level to 2014), the assessments may not change in a revaluation, if property sales data in the affected market area is unchanged.

These observations suggest that it is unlikely, especially in the near-term, that a significant change in assessments would occur from the 20% reduction in cruise passengers disembarking downtown associated with NCL moving to Ward Cove.

Most passengers arriving at Ward Cove will still visit downtown and make retail and food and beverage purchases, although at a lower rate.

The vast majority (96%) of the estimated 25% decline in NCL passenger spending in the city is in the retail and food/beverage categories. In total, this spending is estimated to decline by 5%, from \$145.1 million without

---

<sup>10</sup> Passenger count down 10% from 2014 to 2016 and increased 25% from 2014 to 2020. Recall the 2020 passenger count data points reflect the 2019 experience, to show parity with the January 1, 2020 assessment valuation date.

Ward Cove and \$137.5 million with Ward Cove in 2021. While not desirable from a vendor perspective, 5% reduction in sales is unlikely to significantly affect rents and ultimately valuations in the near-term.

**Estimated Retail and Food/Beverage Expenditures,  
City of Ketchikan, 2021**

	Without Ward Cove	With Ward Cove	Difference	% Difference
Retail	\$130,592,000	\$123,858,000	-\$6,734,000	-5.2%
Food/beverage	\$14,490,000	\$13,648,000	-\$842,000	-5.8%
<b>Total</b>	<b>\$145,082,000</b>	<b>\$137,506,000</b>	<b>-\$7,576,000</b>	<b>-5.2%</b>

Source: McDowell Group estimates. Figures have been rounded.

How property values might change with future development at Ward Cove is more difficult to predict. While there is likely to be additional development at Ward Cove that captures an increasing share of passenger spending, this will be somewhat offset by the projected increase in passenger arrivals and spending downtown from 2022 to 2029. In a scenario where Ward Cove volume does not increase beyond the projected 280,600 passengers, retail and food/beverage spending in the city is projected to increase as passenger volume increases. By 2024, total estimated retail and food and beverage revenue (\$148.6 million) would surpass the estimated total of \$145.1 million in 2021 and continue to increase to \$168.9 million by 2029. In this scenario it seems unlikely that property valuations would decline and could in fact increase over time.

As discussed elsewhere in this study, a variety of factors could affect Ward Cove passenger spending in the city beyond 2021 including additional ships moving to Ward Cove, additional retail and food/beverage offerings at Ward Cove, length of port calls, and transportation-related time constraints. Whether any combination of these factors will be enough to offset the appreciable gains in other passenger spending through 2029 and result in reduced property assessments in future is uncertain.

**Estimated Retail and Food/Beverage Expenditures in the City,  
With and Without Ward Cove, 2021-2029 (\$000s)**

	2021	2022	2023	2024	2025	2026	2027	2028	2029
<b>Without Ward Cove</b>									
Retail	\$130,592	\$133,780	\$137,140	\$140,500	\$143,956	\$147,508	\$151,156	\$154,900	\$158,740
Food/Beverage	\$14,490	\$14,855	\$15,240	\$15,625	\$16,021	\$16,428	\$16,846	\$17,275	\$17,715
<b>Total</b>	<b>\$145,082</b>	<b>\$148,635</b>	<b>\$152,380</b>	<b>\$156,125</b>	<b>\$159,977</b>	<b>\$163,936</b>	<b>\$168,002</b>	<b>\$172,175</b>	<b>\$176,455</b>
<b>With Ward Cove</b>									
Retail	\$123,858	\$127,045	\$130,405	\$133,765	\$137,221	\$140,773	\$144,421	\$148,165	\$152,005
Food/Beverage	\$13,648	\$14,014	\$14,399	\$14,784	\$15,180	\$15,587	\$16,005	\$16,434	\$16,874
<b>Total</b>	<b>\$137,506</b>	<b>\$141,059</b>	<b>\$144,804</b>	<b>\$148,549</b>	<b>\$152,401</b>	<b>\$156,360</b>	<b>\$160,426</b>	<b>\$164,599</b>	<b>\$168,879</b>

# **Dock Construction Economic Impacts and Property Tax**

---

## **Economic Impacts of Dock Construction**

The Ward Cove construction is expected to support about 45 temporary jobs and \$5.0 million in payroll in Ketchikan. Payroll costs supported by the Ward Cove development are “all in” labor costs including wages and salaries and employer-paid benefits like health care. A mix of local residents and workers from other Alaska communities are expected to be employed in Ward Cove construction and a majority of payroll is expected to be spent in workers’ home communities. Due to limited suppliers in Ketchikan, nearly all materials are expected to be procured outside of the Ketchikan economy.

## **Dock-Related Property Tax**

The value of the dock and the transit facility would likely be assessed at near its construction cost. The estimated costs are approximately \$50,000,000; \$40 million for a double dock and \$10 million for refurbishment of about 54,000 sq. ft. transit facility/welcome center. It would be reasonable to assume that this property would be assessed close to the estimated value of investment. At the current 2020 Borough mill rate of 5.7 the indicated taxes would be about \$285,000 (\$50,000,000 times 0.0057) for the improvements.

# Appendix A: Contacts

---

## **CITY OF KETCHIKAN**

Bob Newell, Finance Director

Steve Corporon, Port and Harbors Director

## **KETCHIKAN GATEWAY BOROUGH**

Claire Kelly, Sales Tax Technician

Richard Harney, Planner

## **TOUR OPERATORS**

Brien Salazar, Taquan Air

Russell Thomas, Tour Operator

Chuck Slagle, Baranof Fishing Excursions

Rob Scheer, Great Alaskan Lumberjack Show

Kari Erickson, Holland American Princess

## **RETAIL**

Dave Coates, Salmon Landing

Chris Parks, Tongass Trading

Jai Nahtani, Gold Rush Jewelry

Elanor Davenport, Icy Strait Point

## **WARD COVE GROUP**

John Binkley

Ryan Binkley

Dave Spokely

Andrew Spokely

Shauna Lee

## **CRUISE INDUSTRY**

Mike Tibbles, Cruise Lines International Association

John Kimmel, Cruise Line Agencies of Alaska

Kirby Day, Princess Cruises

Jennifer Miller, Princess Cruises

Chris McGraw, Old Sitka Dock

Tyler Hickman, Icy Strait Point

Steve Moeller, Norwegian Cruise Line

## **OTHER**

Patti Mackey, Ketchikan Visitors Bureau

Mark Ittle, Bermello & Ajamil



## Appendix B: Port Time

### Hours in Port

The table below shows average length of stay for each ship during the 2019 cruise season. Port times vary, based on a variety of factors including southbound or northbound destination, next port of call, and other port traffic.

The Bliss calls are on average the shortest at 5.4 hours. It is not known at this time if port calls to Ward Cove will result in longer stays. If the Bliss were to continue with an average of 5.4 hours and considering added travel time from Ward Cove to downtown and back it may have some effect on shopping/eating time. Some tours will depart Ward Cove heading north. Some of these passengers may decide to end their tour back at the ship rather than venture downtown for a short amount of time.

**Average Hours in Ketchikan by Cruise Line and Ship, 2019**

Cruise Line/Ship	Average Hours in Port	Cruise Line/Ship	Average Hours in Port
<b>Princess Cruise Lines</b>		<b>Norwegian Cruise Lines</b>	
Coral Princess	8.5	Regatta	8.9
Star Princess	8.1	Norwegian Jewel	8.2
Grand Princess	8.1	Seven Seas Mariner	8.2
Island Princess	7.9	Norwegian Joy	7.7
Royal Princess	7.7	Norwegian Bliss	5.4
Golden Princess	7.7		
Ruby Princess	6.2		
<b>Holland America Line</b>		<b>Celebrity Cruises</b>	
Amsterdam	8.8	Solstice	9.1
Maasdam	8.4	Millennium	8.4
Westerdam	8.1	Eclipse	6.2
Nieuw Amsterdam	8.0		
Noordam	8.0		
Volendam	8.0		
Eurodam	6.0		
Oosterdam	6.0		
<b>Royal Caribbean</b>		<b>Carnival Cruise Lines</b>	
Radiance Of The Seas	9.7	Carnival Legend	6.6
<b>Cunard</b>		<b>Disney</b>	
Queen Elizabeth	9.5	Disney Wonder	8.2

## Appendix C: Old Sitka Dock

### Old Sitka Dock

The community of Sitka is a regional example of how passengers behave when arriving at a cruise dock some distance from downtown. The Old Sitka Dock was constructed in 2011 and began servicing large cruise ships in 2012. Its location is about 6 miles by road from downtown Sitka, making it relevant to the Ward Cove dock; in both cases large volumes of passengers shuttle between the city center



and a (comparatively) remote, undeveloped dock location. The dock is 1,250 feet in length and can accommodate one neo-Panamax ship. The terminal is 8,500 sq. ft. and was scheduled to be enlarged to 19,000 sq. ft. in 2020. Current vendors include three retail shops (souvenirs, jewelry, furs) and a seasonal tent offering beer and seafood. The facility was scheduled to receive 194,000 passengers in 2020 (pre-COVID).

A representative of Halibut Point Marine said that passengers typically spend very little time at the terminal, particularly upon disembarking: they head straight for the downtown shuttles or tours. An estimated 95% of passengers access the downtown area. Some passengers are picked up at the dock for their tour, others are transferred downtown via a free shuttle that runs every 10 minutes. One-way transit time is about 10-12 minutes. The shuttles buses are owned by the Old Sitka Dock and drivers are hired by contract from Alaska Coach Tours. The shuttle costs about \$3.00 per passenger to operate. The City and Borough of Sitka provides a \$150,000 subsidy (from CPV funds) for the shuttle, or about \$0.75 per passenger.

Tours are designed to either pick up passengers at the dock and drop them off downtown, or vice versa. Very few passengers participate in their tour and return directly to the ship, and even fewer disembark and re-board without doing a tour and/or visiting downtown.

Before re-boarding, passengers typically spend 20 or 30 minutes wandering the dock area and shopping or eating. He pointed out that it is difficult to compete with free food onboard the cruise ship, just a few steps away from the terminal.