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TRANSMITTAL MEMORANDUM

TO: The Honorable Mayor and City Council

FROM: Lacey G. Simpson, Acting City Manager

DATE: June 26, 2022

RE: **Extending a Discount to the Port Dock Vendor Booth Lease Holders for the 2022 Cruise Season**

At its meeting of July 7, 2022, the City Council held a discussion on the Port Dock Vendor Booth Lease Program including whether or not it should extend discounts to the lease holders for the 2022 cruise season. This action came as a result of public comment received at several City Council meetings in which booth lease holders expressed that their tour sales to-date have been much less than expected and this was attributable to lower than anticipated on-board capacities of vessels calling at the Port of Ketchikan. Ultimately, the City Council directed staff to prepare an agenda item offering a 25% discount to lease holders for the 2022 season.

Attached for City Council consideration is a memorandum from Port & Harbors Director Darryl Verfaillie regarding the impacts of the suggested 25% lease payment discount and additional information pertaining to onboard visitor counts for the 2022 season to-date as well as alternative discount options for the City Council's review. As detailed by Mr. Verfaillie, the suggested 25% discount equates to a revenue reduction of \$92,611 for the Port Enterprise Fund when applied to both the Port Dock Vendor and Port Food Vendor leases. While this amount is relatively low compared to total 2022 projected revenues for the Port Enterprise Fund, as stated by Mr. Verfaillie this amount equates to the cost of seven (7) full time port security personnel for the duration of the season.

As relayed to the City Council on numerous occasions, the 2022 cruise season has been one unlike any other seen previously. Due to several factors, principally the COVID-19 pandemic and its impact on cruise sales, onboard capacities for the beginning of the 2022 season were reduced. For this reason, staff delayed the bid opening for the Dock Vendor and Food Vendor programs twice to allow bidders to make a more informed decision regarding their bid amount. This action was in direct response to the requests and concerns of prospective bidders, and bids were finally opened on May 28, 2022. In addition, the call schedule has been in flux for the entirety of the season, with vessels calls being canceled, added, reduced or extended on a regular basis. Despite these fluctuations, the City's budgeted 2022 season projection of 70% of the lower berth count capacity appears to be on schedule. Early season capacities were trending at 50-60% and have been steadily climbing and now exceed 80% for many vessels. Given the additional time

extended to prospective booth lease bidders to weigh the unknown impacts of the pandemic on visitation as well as the loss of Ward Cove passengers, vendors submitted bids that were on average 12% less than those submitted in 2018 during the last lease bidding period.

While the schedule fluctuations have surely had an impact on the sales that have occurred at the Port, the attached July 16, 2022 article featured in the *Ketchikan Daily News* indicates that another trend may be at play. As quoted in the article, Port Dock Vendors are seeing more tour sales taking place onboard cruise vessels as opposed to on the Port upon arrival. These pre-booked tours have created reduced opportunities for the independent tour providers occupying the leased port booths and may signal a shift in how cruise passengers book and purchase their tours and shore excursions from this season into the future.

Given the above factors, it is my suggestion that the City Council consider Option 1 outlined in the Port & Harbors Director's memorandum, which is to reevaluate the situation at the end of the season once the full impacts to actual onboard capacities are known and then extend a discount as appropriate. The suggested 25% discount may be in-line with the actual reduction to visitation over the course of the 2022 season, but at this time the figure appears premature and somewhat arbitrary in relation to actual versus projected visitation. Should the City Council wish to consider the impact onboard sales may have to the lease holders, this will be difficult to quantify and apply as a proportionate discount. As the City Council discussed previously, extending a discount to any contractor should be approached with caution and may invite similar future requests. As the 2022 cruise season has been a recovery year and much that was anticipated or projected has not come to fruition, this provides all the more reason to terminate the Port Dock Vendor leases at the conclusion of the 2022 season and re-bid in time for the 2023 season as staff has suggested previously. This will not only allow for staff to revise the lease agreements for clarity and to reflect historic practices but it will also not obligate the current lease holders to high monthly lease payments that are arduous and financially harmful given the changing circumstances.

Port & Harbors Director Darryl Verfaillie will be attending the City Council meeting of August 4, 2022, in order to address any questions and/or concerns that Councilmembers may have.

A motion has been prepared for City Council consideration.

RECOMMENDATION

It is recommended that the City Council adopt the motion directing staff to take such action as determined appropriate regarding offering a discount on the monthly lease payments of the 2022-2024 Port Dock Vendor and Port Food Vendor Lease Agreements for the 2022 season.

Recommended Motion: I move the City Council direct staff to take such action as determined appropriate regarding offering a discount on the monthly lease payments of the 2022-2024 Port Dock Vendor and Port Food Vendor Lease Agreements for the 2022 season.



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MEMORANDUM

TO: Lacey Simpson, Acting City Manager

CC: Diane Bixby, Executive Assistant

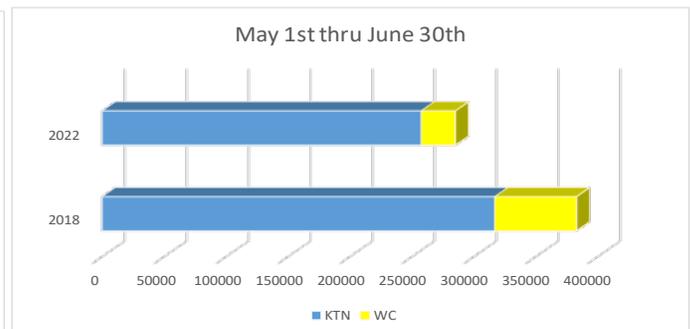
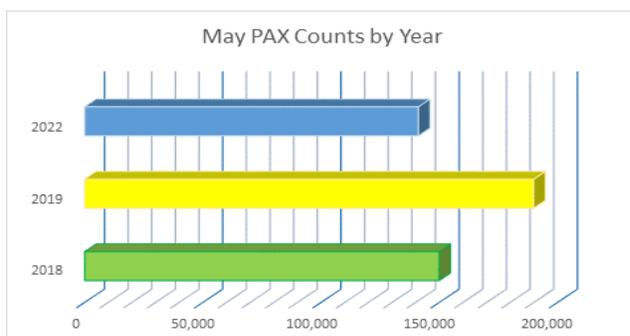
FROM: Darryl Verfaillie, Port and Harbors Director

DATE: July 22, 2022

SUBJECT: PORT DOCK VENDOR LEASE AGREEMENTS FOR 2022 OPERATING SEASON

A vocal minority of current Port Dock Vendor Lease holders has requested that they be extended a discount for the 2022 portion of their 2022-2024 Port Dock Vendor Program Leases (Contract No. 22-02), in light of the less-than expected onboard capacities and associated revenues. A specific vendor went so far as to state publicly, that this request was based on ongoing/extended passenger counts of 20-30% during the first half of the current operating season. Please note that per the City's 2022 passenger wharfage fees report, there have been 223 ship arrivals between May 1st and July 16th, with only two vessels recording passenger counts below 30% and a total of four vessels recording passenger counts below 40% (all six referenced ships are operated by Holland America). When this original claim was made, the average passenger capacity count for May was 62%.

In response to these claims, a closer review of passenger counts was conducted. A comparison for the period May 1st thru June 30th for 2018 (previous Lease) and 2022 (current lease) was reviewed. It is important to note that in 2018, the Port of Ketchikan passenger counts included a total **65,902 passengers** on ships that currently arrive at Ward Cove. In order to compare "apples-to-apples" this passenger count would need to be removed from the 2018 passenger manifests, to more accurately reflect what passenger counts would have looked like at the Port had Ward Cove been operational during the 2018 operating season (*see revised totals below):



1. 2018 = a total of **316,969 passengers** arrived at the Port of Ketchikan*
2. 2022 = a total of **257,606 passengers** arrived at the Port of Ketchikan

Using the aforementioned comparisons (and excluding the potential for the 76,459 Ward Cove passengers in

2022 arriving via bus to Downtown Ketchikan within this same time frame) , it appears that the passenger counts from 2018 and 2022 differ by a total of **59,363 passengers – or a reduction of 18%**.

If viewing losses purely from a financial standpoint, one would need to review past and present bid totals per passenger.

- In 2018, Port Dock Vendors (including food vendors) paid a total of: \$ 84,135/mo or a total of **\$420,680.00** for the season - representing an investment of \$0.54 per potential patron.
- In 2022, Port Dock Vendors (including food vendors) bid a total of: \$74,089/mo or a total of **\$370,445.00** for the season – representing an investment of \$0.58 per potential patron.

The current 2022 Lease Agreements represent a reduction of **\$50,235.00 (12%)** in Dock Vendor operating costs from the previous 2018-2019 lease agreements, or an increase (per vendor) of \$0.04 per potential patron (if distributed evenly amongst all 8 lease holders). Any larger losses in revenue would be attributable to the opening of Ward Cove – which was a known factor prior to the opening of the bid process.

Conversely, if the decision is made to extend a 25% discount for the 2022 portion of the current lease agreement, this would represent a **net loss of \$92,611.25 (the amount equivalent to the cost of funding seven (7) port security personnel for the bulk of the operating season) to the Port Fund**, and thereby further reduce the total cost of the 2022 Lease by \$142,846.25 from the prior 2018-2019 lease agreements.

2022-2024 PORT DOCK VENDOR LEASE HOLDERS W/2022 DISCOUNT PROPOSAL

<u>Bidder</u>	<u>Bid Amount</u>	<u>25% Discount</u>	<u>Total Discount</u>
D’s Fish and Chip Shack	\$3, 500/mo	\$875/mo	\$4,375
Lili’s Bubble Tea	\$1,500/mo	\$375/mo	\$1,875
AK Amphib	\$9,224/mo	\$2,306/mo	\$11,530
Dolly’s	\$13,000/mo	\$3,250/mo	\$16,250
Ketchitour	\$7,500/mo	\$1,875/mo	\$9,375
Northern Tours	\$15,015/mo	\$3,753.75/mo	\$18,768.75
Sourdough Tours	\$12,700/mo	\$3,175/mo	\$15,875
Venture Travel	\$11,650/mo	\$2,912.50/mo	\$14,562.50

In summary, the 2022 cruise ship calendar remains extremely fluid, as ship visits are both added and subtracted from early-season estimates, on a semi-regular basis. With that said, it is unrealistic to attempt to capture final passenger counts/percentages until the end-of-season numbers are tabulated from passenger wharfage fees. It is unclear as to whether cancellations – such as multiple CROWN PRINCESS voyages to Ketchikan - will be offset by the addition of multiple arrivals, such as the QUANTUM OF THE SEAS – and other smaller vessels. Only time will tell. What is clear, is that vessel passenger counts continue to rise – having now crossed the mid-season mark, with numerous vessels at or above 80% passenger capacity in the last few weeks alone. Averages taken between July 1-16, show Holland America with the lowest passenger counts at 65%, while Carnival Cruise Lines show the highest passenger counts at 97% for the same period.

Should the decision remain to extend a discount to our Port Dock Vendors for the 2022 operating season, I strongly urge the Council to make the decision based on documented and verified information representing the entirety of the situation.

The following baseline data is provided for clarification:

Original Pre-Season Passenger Estimates:

- Total Passengers at Port of Ketchikan: 999,844

Industry Revised Passenger Count Estimates (@70%):

- Total Passengers at Port of Ketchikan: 699,890

Actual Passenger Counts as of July 16, 2022:

- Total Passengers at Port of Ketchikan: 339,338

Passenger Count Percentage for May 2022: 66%

Passenger Count Percentage for June 2022: 70%

Passenger Count Percentage for July (1-16) 2022: 69%

RECOMMENDED OPTIONS: Should the Council feel obligated to extend a discount/prorate lease obligations, to this select business sector, the following options may be considered:

Option 1: Reevaluate upon completion of season for possible Lease Credits - if deemed applicable based on unforeseen anomalies in vessel ops and/or newly implemented COVID-19 restrictions.

Option 2: Extend discounts to all eight vendors in an amount **not to exceed 6%** based on the current 18% reduction in passenger counts partially offset by the 12% reduction in vendor bid amounts from 2018 to 2022. This would equate to a **net loss of \$22,227.00 to the Port Fund.**

Option 3: Extend a discount/prorate (amount/percentage to be determined at Council's discretion) for the specific portion of the 2022 season most adversely affected, based on exigent circumstances.

Note: Regardless of which option the Council so chooses, it is recommended that we move towards cancelling existing leases at the end of the 2022 operating season, as outlined per KMC 13.09.025(b)(13), and rewriting the leases to better clarify expectations and address current business practices.

Though challenges persist, most businesses welcome bounce-back year

By KODY MALOUF Daily News Staff Writer
Jul 16, 2022

Fog horns sound and enthusiastic passengers spill down cruise ship gangways to fill the streets of downtown Ketchikan. Tour companies are running, shops are open and Port Security personnel have returned to their posts at the downtown crosswalks.

This July marks the approximate midpoint in Ketchikan's first "full" season of cruise ships and tourists since 2019, before the COVID-19 pandemic struck in 2020 and put the town's economy in a hole that it's just now starting to crawl out of.

For example, the City of Ketchikan collected \$12.8 million in sales tax revenue in 2019, before dropping 33.3% to \$8.5 million due to the pandemic in 2020, when no ships visited Ketchikan. Then 2021 represented a modest increase at \$9.8 million, and 2022 is expected to improve on that figure.

But even with the tourism industry beginning to make its return, it might take more than three months of tourism to get the industry "back to normal."

The assortment of ships resuming port calls in Ketchikan so far this season have not been at full capacity, with some ships that boast capacities over 2,000 guests coming to port with just a few hundred on board.

The Ketchikan Visitors Bureau's 2022 cruise ship calendar projects that 1.4 million passengers could visit Ketchikan this summer, based on the lower berth count — which tallies the overall number of passengers if every cabin on each ship is occupied by two passengers. That would exceed the previous record for actual passengers, which was 1.17 million set in 2019. Those projections are not expected to be reached.

In a memo written for the Ketchikan City Council meeting of July 7, Ports and Harbors Director Darryl Verfallie wrote that the average onboard passenger capacity for ships visiting the downtown docks from May 29 to June 25 has been about 70%. The city used the same projected percentage when developing its budget for 2022. Those projections do not include ships docked at Ward Cove.

Through the months of May and June, a total of 254,601 cruise ship passengers arrived in Ketchikan, substantially fewer than the 449,935 passengers who came to town over that same period in 2019.

In the January issue of its "Trends" magazine, the Alaska Department of Labor and Workforce Development forecast an 86% recovery for statewide "Leisure and Hospitality" industries for 2022 compared to 2019.

Although this season might not be an immediate return to the prominence of 2019, Great Alaskan Lumberjack Show Owner and CEO Rob Scheer still sees this season as a return to form for Ketchikan's tourism industry, and he compared this season to 2016.

"I would call it a bounce back year," Scheer said. "2016 numbers for Ketchikan are good numbers — they mean that we are creating a really strong economy again. From the jobs, to the sales tax that trickled down, to the suppliers. If you look at all the suppliers that we have, they're moving a lot of product and inventory now because the industry's back. So I see a lot of positive stuff happening, a rebound for sure."

Kawanti Adventures Vice President of Operations and Taquan Air Director of Business Development Christa Hagan said a "soft opening" was to be expected this season, and she hopes the volume of passengers will continue to increase as the summer continues.

"I would say it's going according to plan," Hagan said. "As far as supply and demand, we knew the season was going to start out soft. The full fleets are coming in as planned, but the ships are not coming in at capacity. We're seeing that increase steadily throughout the course of the summer. For shoreside tour sales, the demand isn't necessarily matching the level or the pace of the increase of the load factor on board the vessels. But we expect to see that jump significantly in the next couple of weeks."

Some downtown businesses, such as the New York Cafe, were able to lean on the support of Ketchikan locals while tourism was substantially lower.

While the New York Cafe relies heavily on visitors from out of town, the coffee shop and restaurant likely wouldn't have been able to survive without the continued patronage of locals during the past two years, according to co-owner Raffy Tavidagian.

Tavidagian sees tourism's return as seasonal income that supplements his year-round business of serving locals.

"Our business model is not strictly aimed towards tourists," Tavidagian said. "It's an added cushion that we get from tourists. It's all broken into the calculations, but we are, first and foremost, a cafe or restaurant for the locals in town. We live here year round, and we want to make sure that we are taking care of our locals first and then focus on whatever else we get."

With tourist season revenue providing a cushion, Tavidagian acknowledged that the past two years have put his business model to the test, but Federal Payroll Protection Plan Programs and the limited 2021 tourist season helped keep the business afloat.

He added that he's "excited that things are getting back to normal, even if it's not a hundred percent there."

Tongass Trading Co. is another business that relies on both locals and tourists to keep its doors open. Vice President Shane Greaves detailed how important both have been for the company since the start of the pandemic.

"Our company is kind of unique because half of our company caters to the tourists, and the other half we cater to the locals," Greaves said. "So we kind of have the best of both worlds where we're dependent on each other and the local people for business and from our guests that come. The last couple of years, we haven't had our visitors, so we're very thankful that we are able to have our local business and our friends and families and neighbors that supported us through the last couple of years of COVID."

As thankful as Greaves was to see the continued support of Ketchikan locals, he's also thrilled to have out-of-towners frequenting Tongass Trading Co. shops once again.

"We're really happy that now we get our friends that are coming off the ships," Greaves said. "We feel pretty honored that they want to come up to see where we take for granted every day, this beautiful place that we live. We're very happy they're back and they're happy, every day they tell us how much they've missed coming up. We've talked to people that have been up here several times in the last bunches of years on cruise ships and they're excited to come back."

He added that Tongass Trading is "coming back in full force" this season, and made a point to express his appreciation for the employees that have made it all possible.

Ketchikan might be once again seeing a substantial number of cruise ship passengers, but not all sectors of the tourism industry are rebounding. One subsection that's taken a big hit is dock sales for excursions.

As Taquan Air and Kawanti Adventures Lead Dock Salesman Brendan Lyle explained, an increasing number of guests are purchasing their tours on board their ships, which has taken a substantial chunk out of the revenue that dock salesmen rely on.

"The amount of pre-booked cruise ship passengers versus non pre-booked passengers dwarfs anything that I've ever seen in the past," Lyle said. "So that just completely decimates our opportunity."

Lyle also referenced shorter port times for ships as another hindrance for 2022 dock sales, and said that he doesn't think many tour companies will be able to afford to keep representation on the dock if sales don't pick up. He suggested reduction on lease costs for sales locations as one way to combat the issue, and stated that he thinks the landscape of dock sales will "look vastly different than it has in the past" in 2023.

The addition of the dock at Ward Cove — which began operations in 2021 — also has affected revenues for many businesses downtown. As Scheer puts it, the dock's location — about seven miles from downtown Ketchikan — can result in less time for passengers to spend downtown.

According to the Cruise Line Agencies of Alaska Cruise Ship Calendar of 2022, Ward Cove saw 54 ship visits from May through June, and will see a total of 159 ship visits for the entire 2022 season. Norwegian Cruise Lines has docked all of their ships at Ward Cove this year — just as they did during the abridged 2021 season — due to an agreement between the cruise line and Ward Cove Dock Group, LLC.

"We're seeing numbers going to Ward Cove, but the complications there are that if they're on a five-hour port call to Ward Cove, it's really hard to get them anywhere else to do other things," Scheer said. "Meaning, if you had a three-hour tour, and it was a five-and-a-half hour port call, plus the transportation component, you just have minutes to spare and that's no time left for the downtown experience of Ketchikan."

The majority of port times in Ward Cove in May and June ranged from six to nine hours depending on factors such as cruise line and day of the week. There were also port calls ranging from 11 to 15 hours on occasion.

Another problem some companies areawide have run into is staffing, with some reporting having issues finding employees to fill key roles this season.

Hagan said that the absence of a season in 2020 and the severely abbreviated season of 2021 have made it difficult to retain experienced employees.

“Our primary challenge this entire season has been hiring due to COVID and the gap in seasons,” Hagan said. “We were not successful in bringing back returning staff that are experienced, especially on the technical side. So we've really been behind the eight ball on training and continuing to hire to provide the capacity that our cruise lines are going to need.”

Karri Erickson oversees all Southeast Alaska transportation operations for HAP Alaska Yukon. She has seen a similar trend when it comes to finding employees for this season.

“We definitely have been impacted by staffing shortages,” Erickson said. “We have a very referral-based recruitment program, and with minimal seasons in 2020 and into 2021, we kind of lost that momentum on hiring for 2022 that we've historically relied on. So that definitely played into our seasonal employee numbers for this season. We have some amazing new employees and we're super excited about next season, but (an employee shortage) has been our biggest challenge to overcome this year.”

Erickson said that things “probably feel busier this year than in 2019” for HAP because the company has fewer employees, and added that “people are wearing multiple hats, trying to fulfill all the different roles and create great guest experiences for our customers and for our cruise line partners.”

According to Hagan, the main objective for this season is to learn as much as possible for next season and to iron out the kinks that come with restarting an entire industry.

“When you think about a pragmatic business approach to starting an operation, it grows over the years and restarting a huge operation that is mature, but stagnant, is really a challenge,” Hagan said. “So it's going to be lessons learned this year and how do we apply ourselves in a very strategic manner that will address the gaps that we might have experienced this year, in order to execute a 2023 season successfully.”

July 7, 2022

Motion passed with Gage, Bradberry, Flora, Mahtani, and Kistler voting yea; Gass abstain; Zenge absent.

Discussion of Port Dock Vendor Booth Lease Program – Mayor Kiffer

Mayor Kiffer informed the reason he requested this on the agenda was because as we heard tonight, folks have been encouraging the Council to address this issue.

Councilmember Gage questioned how this would affect the Port Enterprise Fund if we adjust the bid amounts by 25% or 50%. She said she would be interested to see the type of program Juneau uses.

Acting City Manager Simpson indicated the six Dock Vendor Program brings in around \$350,000 for the season, so this would have a fairly nominal effect in the overall scheme of things in regards to what the Port Enterprise Fund typically brings in. She said the main source of revenue for the Port Enterprise Fund is comes from the ships themselves through dockage and wharfage fees.

Mayor Kiffer remembered from meeting years back, when this program first came about, it was never meant to cross-sell tours, but it was sporadically enforced.

Councilmember Gass questioned the city attorney if there were any legal problems adjusting the lease midterm and the possibility of being sued in the future if this happens again and the Council says no.

City Attorney Seaver said as to some form of reduction, in this case, the number of bidders matched the number of booths put out for bid this year which does not always happen. He gave a brief analogy as in contracts when unforeseen conditions that no one could have reasonably expected come up, the contractor provides a change order to make up for that cost. He stated moving forward there is a window at the end of the year where the City can without repercussions terminate the leases that are out there, revise the outdated lease agreement and rebid them.

Councilmember Gass questioned why the booths cannot broker other vendors' tours.

Acting City Manager stated this lease is very difficult to decipher. She pointed out and read the applicable section of the lease agreement which is "Exhibit B". She explained they can sell other tours, just not other dock vendor tours. She said this topic we discussed at great length in 2008 with no action taken by the Council. She indicated this has not been consistently enforced.

Councilmember Bradberry said she was in favor of a cost reduction for the dock vendors for this cruise ship season, and this would be a good way to help out some locals who are trying to stay in business. She indicated she was also in favor of terminating this contract at the end this year as long as the lease is revised in a timely manner, and the agent/broker rule is defined. She indicated the season is at the halfway mark and now is the time to start working on for next year.

Councilmember Kistler said she was in favor of the broker concept for cross-selling other tours. She felt the cancellation of the Crown Princess does give merit to a change order for the dock vendor bidders.

July 7, 2022

Councilmember Mahtani said he agreed with comments made by Councilmember Bradberry. He indicated that he walks around the dock vendor booths almost every other day, and they are hurting. He questioned if we terminate the current leases can the City be held accountable for the remaining two years left in the contract.

City Attorney Seaver said it is set forth in the agreement and the clause is very clear the City can cancel the agreements at their discretion.

Councilmember Flora said it is tough to watch local businesses struggling. He said before we make a decision keep in mind the agreement provides no promises, it is signed of its own free will, the City does not influence ship capacity, it does not influence inflation nor does the City schedule the ships. He stated the pre-season estimate and the numbers to date are spot on. He said if this body decides that is appropriate to provide a discount to the dock vendors for the remainder of this year what do you tell the next person who comes to the podium asking for something. He said he would like the language to say that each company can only sell its own tours. He indicated if they are individual bidders who want to operate collectively then they should become an agent or broker. He felt with cross-selling why do individual bids, just do a flat fee and sell everything.

Councilmember Gass said he can relate to the first half of the comments made by Councilmember Flora. He felt it was dangerous to possibly set precedence moving forward in regards to reducing fees for folks who are having a hard time. He said the Council needs to be clear on how we come up with an appropriate reduction for the dock vendors who currently operate from one of the six booths.

Mayor Kiffer asked for four hands to have staff bring back an agenda item to offer the holders of the current dock vendor leases a 25% discount for the remainder of 2022, and at least four hands were shown.

Ordinance No. 22-1948 –Proposing that Term Limits for the Mayor and Councilmembers be Added to Section 10-3 of Article 10 of the City Charter

Copies of Ordinance No. 22-1948 were available for all present.

Moved by Flora, seconded by Mahtani the City Council approve in first reading Ordinance No. 22-1948 proposing that Section 10 3 of Article 10 of the City Charter be amended to reflect term limits for the Mayor and Councilmembers of no more than three (3) consecutive terms.

Moved by Bradberry, seconded by Gass to amend the term limits for Mayor and Councilmembers to no more than two (2) consecutive three-year terms.

A lengthy discussion ensued among the Councilmembers.

Motion to amend failed with Gass, Mahtani and Bradberry voting yea; Flora, Gage, Kistler and Kiffer voting nay; Zenge absent.

City Attorney Seaver stated typically you want to avoid amendments on the final reading of an ordinance.