

VISITOR INDUSTRY TASK FORCE
THE CITY AND BOROUGH OF JUNEAU, ALASKA
December 3, 2019 12:05 PM
City Hall, Assembly Chambers

I. CALL TO ORDER/ROLL CALL

II. APPROVAL OF AGENDA

III. APPROVAL OF MINUTES

- a. November 5, 2019 Visitor Industry Task Force Minutes

IV. AGENDA TOPICS

- a. Historic Tourism Planning Efforts – Alexandra Pierce, CDD Planning Manager
- b. Long Range Waterfront Plan – Michele Elfers, P&R Deputy Director
Overview of accomplishments, current planning
- c. Parks & Recreation Commercial Use Regulations – Michele Elfers, P&R Deputy Director
(Information Topic)
- d. Visitor Industry Task Force Discussion
- e. Supplemental Industry Global Growth Information
- f. Next Meeting – Tuesday, December 17, 2019 in Assembly Chambers at 12:05 p.m.
Schedule preliminary public comment in January

V. ADJOURNMENT

Future Meeting Topics:

- A. Current Tourism Management Approaches.
- B. Review the Long Range Waterfront Plan in detail, what has been accomplished, what hasn't.
How have issues changed?
How have issues stayed the same?
Discuss pros and cons of updating.
Tourism Restriction Discussion
- C. Recommendations development

Note: Agenda packets are available to review online at <https://juneau.org>

ADA accommodations available upon request: Please contact the City Clerk's office 72 hours prior to any meeting so arrangements can be made to have a sign language interpreter present or an audiotape of the Assembly's agenda made available. The Clerk's office telephone number is 586-5278, TDD 586-5351, email: city.clerk@juneau.org.

VISITOR INDUSTRY TASK FORCE
THE CITY AND BOROUGH OF JUNEAU, ALASKA
November 5, 2019 12:05 PM
City Hall, Conference Room 224
MINUTES-DRAFT

I. CALL TO ORDER/ROLL CALL

Meeting called to order by Chair Triem at 12:05 p.m.

Members Present: Chair Carole Triem, Assemblymember Wade Bryson, Bobbie Meszaros, Holly Johnson, Alida Bus, Meilani Schijvens, Paula Terrel (telephonically) and Dan Blanchard (telephonically)

Members Absent: Vice Chair Craig Dahl and Kirby Day

Others Present: Deputy Municipal Clerk, Diane Cathcart, City Manager Rorie Watt, City Attorney, Rob Palmer, Mayor Beth Weldon, Assemblymembers Loren Jones, Alicia Hughes-Skandijs and Greg Smith, Port Director Carl Uchytel, Planning Manager Alexandra Pierce, P&R Deputy Director Michele Elfers and 25+ members of the public.

II. APPROVAL OF AGENDA

Agenda approved as presented

III. APPROVAL OF MINUTES

None

IV. AGENDA TOPICS

a. Brief Discussion on Public Comment

Chair Triem recommended that members of the public wishing to submit public comment to the Task Force do so via city.clerk@juneau.org email. The Clerk's Office will print off those comments and add them to the VITF binders under the Public Comments Tab. Public Comments will also be posted to the Visitor Industry Task Force webpage <https://beta.juneau.org/assembly/visitor-industry-task-force> which can be accessed from a link on the home page under Current Issues. Ms. Triem also noted the Task Force will look at setting meetings after the first of the year specifically to take public comment and allow citizens to testify in person, until then anyone is welcome to submit comments via email or regular mail. Mr. Watt mentioned that any public comment regarding visitor industry issues that are sent to the Assembly or him will also be given to the Task Force. The purpose of the Task Force is to advise the Assembly and members need to see everything that is being sent in. All public comment will be collected and submitted to the Assembly with the final work product.

b. Juneau in the Region, where do we fit? What do we know about the future?

Mr. Watt gave a slide and verbal presentation on the cruise industry in Juneau with an emphasis on where does Juneau fit within the region and how does Juneau look to outside entities. One example is the Mental Health Trust Land along the waterfront that

was just purchased by Norwegian Cruise lines for \$20 million. Slides included graphs on growth on number of cruise passengers from 1970-2019 along with a 50% increase in passengers from 2010-2019 from 875,000 to 1.31 million. Slides also included maps showing property ownership along the waterfront and tidelands, what a typical week with visitation numbers looks like, how the cruise ships have increased in size, Port of Seattle cruise ship passenger growth and how Juneau fits within the ports of call throughout southeast. Juneau has changed and updated its waterfront through the 16B project to accommodate the larger ships coming into port. Mr. Watt stated it was important to think of ourselves as part of that regional system; cruise ships aren't just coming to Juneau they are originating in Seattle or Vancouver and stopping in other Southeast ports other than Juneau. The Port of Seattle's growth is driving Southeast's growth and Juneau is a desired location.

Mr. Watt then walked the Task Force through John Brinkley's slide show that discussed how the cruise ship industry is contributing to local economies, touched on the CLIA lawsuit, how it was resolved and highlighted Skagway greeting its one millionth passenger.

After the presentation by Mr. Watt, Chair Triem opened up the time to questions of the Task Force. Mr. Drew Greene with Cruiseline Agencies was in the audience and invited to the table to answer some questions of the Task Force.

Mr. Bryson asked if Skagway was mirroring Juneau's peaks; Mr. Greene mentioned that Juneau tends to be busier in the middle of the week. Visitors' desire to have week-long vacations that start and end on the weekends influences which days of the week see more cruise ships in Juneau. Ms. Johnson asked how many people are here on Tuesdays. Mr. Greene stated that 14,000 passengers can come through port on Tuesday's but they are "hot-berthing" so not all 14,000 are here at the same time. Ms. Schijvens asked what CBJ is telling Norwegian Cruise Lines. Mr. Watt said the message of "go slow" and where do we want to go as a community. The overwhelming comments when creating the waterfront plan was 67% responding were "unsupportive" or "very unsupportive" of a dock at the sub-port; and very supportive of the seawalk.

c. Brief Explanation of the complexities of ship berth scheduling CLAA Schedule

<http://claalaska.com>

Ms. Bus asked how difficult it would be to shift some of those high capacity days. Mr. Greene said it would be difficult to sell some of the large cruises mid-week, there is not the same demand. Mr. Blanchard asked what the cross-gulf traffic looks like and perhaps looking at more roundtrips in state. Chair Triem wondered with the ships getting bigger how are we dealing with that and not just the number of ships in port but also the size of those ships. Mr. Watt said there is a broad range of ideas of what is a small ship; Docks and Harbors is working small cruise ship berth planning.

Ms. Terrel commented that Juneau used to have a "free-ship" day such as Saturdays. She asked what has changed within the system that we no longer have those and is it possible to revisit that as a possibility. Mr. Watt stated that while Juneau did have some

free days during the 1990's what has changed is demand and dock ownership. Two docks are owned by CBJ and two are owned by private entities. The cruise ship companies figure out their scheduled based on consumer demand.

d. Visitor Industry Task Force Discussion

Ms. Terrel stated that all these presentations are good but it was important to look at a mission statement. She would like to have a mission statement that takes the Task Force into the guidelines they are tasked with.

The Task Force liked the mission statement that Ms. Terrel said: *Support a viable tourism industry that enhances quality of life.*

Chair Triem stated that if Ms. Terrel wished to flesh the mission statement out a bit to create a full sentence she could bring that to the next meeting. Chair Triem also noted that the Task Force members were on board with the statement pretty much as stated.

e. Next Meeting – Potential reschedule from 11/19 to 11/26

With several members gone during mid to late November for Alaska Municipal League and the holidays, it was decided the next meeting of the Visitor Industry Task Force would be Tuesday, December 3, 2019 at 12:05 p.m. in the Assembly Chambers.

V. ADJOURNMENT

With no further business to come before the Task Force, meeting was adjourned at 1:05 p.m.

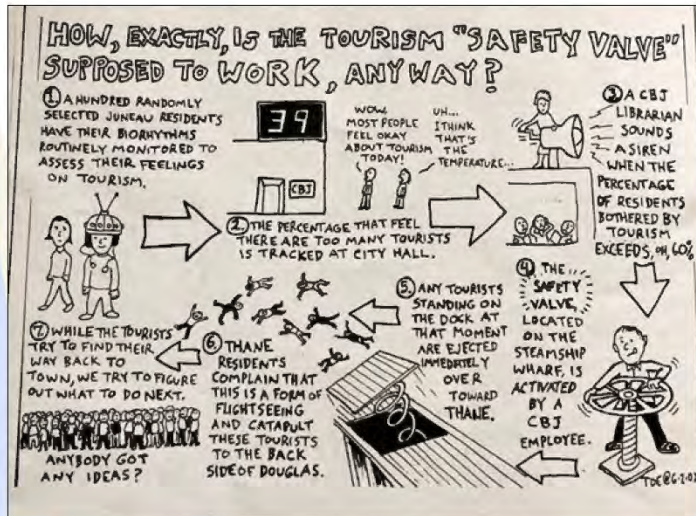
Future Meeting Topics:

- A. Historical review of past tourism planning efforts.
- B. Current Tourism Management Approaches.
- C. Review the Long Range Waterfront Plan in detail, what has been accomplished, what hasn't.
How have issues changed?
How have issues stayed the same?
Discuss pros and cons of updating.
Tourism Restriction Discussion
- D. Options for Seeking Public Opinion
- E. Recommendations development

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CBJ Tourism Planning Efforts, Past and Present



Juneau Empire cartoon, 2002

Visitor Information
Taskforce
December 3, 2019



Historical Tourism Planning Efforts

Since 1988, CBJ has:

- Convened or funded 11 different committees to address tourism issues
- Completed 14 projects, studies or plans for tourism analysis or management



Highlights: Marine Passenger Fee

- 1996 CBJ ballot initiative for a \$7 “head tax” failed
- 1999 CBJ ballot initiative for a \$5 “head tax” passed with 70% of the vote
- Statewide \$50 Commercial Passenger Vessel Exise Tax was enacted in 2007, later reduced

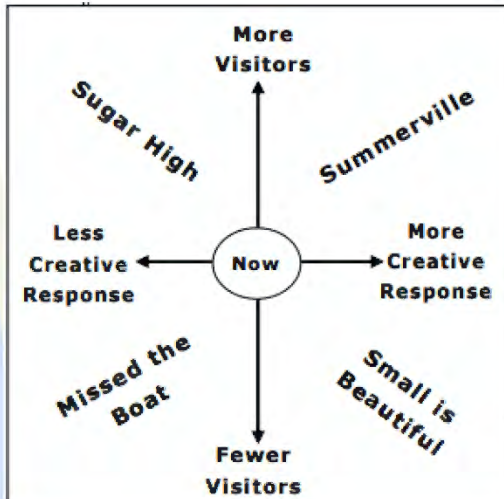


Highlights: 2002 Juneau Tourism Management Plan

- Provides management direction on a range of tourism issues
- Adopted Resolution 2170 incorporates the key directions of the Plan
 - Generally recognized value of tourism
 - Identifies hard limitations on infrastructure capacity
 - Addresses less tangible limitations to community tolerance of impacts
 - Formally adopts specific policies around major identified impacts within CBJ's purview



Highlights: The “Future” from 2006



- Collaboration Juneau's visions for 2015
- Where are we now?



Highlights: Long Range Waterfront Plan



*Adopted 2004
Planning horizon 2005-2026*



LRWP: Manage and Focus Waterfront Change

- Enhance community quality of life.
- Strengthen tourism product offerings as well as downtown retail, entertainment, residential and service activities.
- Improve Juneau's image and attractiveness for investment
- Recognize all current waterfront uses.



LRWP: Issues and Opportunities (2003)

- Commercial
 - Rock Dump is economic engine/cargo operations restricted by **congested** traffic
 - Maritime Security
- Tourism
 - Lack of facilities for charter vessels and large yachts
 - Vehicular and pedestrian circulation **congestion**
 - Cruise industry demand for growth of docks and facilities
- Recreation
 - Waterfront needs **balance** between tourism and other opportunities on waterfront
 - Marine Park as center of civic activity, village green, **unified** spaces
 - **Balance** port security, public safety, economic development and great waterfront public spaces
- Downtown
 - Improved **connectivity** between the waterfront and Downtown to bring business to year round local shops.
 - Limited parking can inhibit development
 - Keep Capital in Juneau



LRWP: Guidebook for Land Use and Design

- Redevelop Marine Park by unifying spaces
- Wrap Library ground floor with commercial/cultural uses
- Create wayfinding program
- 2-3 story building height, mixed use development
- Attention to Character, Street Orientation, Transparency and Views



LRWP: Seawalk Is a Unifying Element



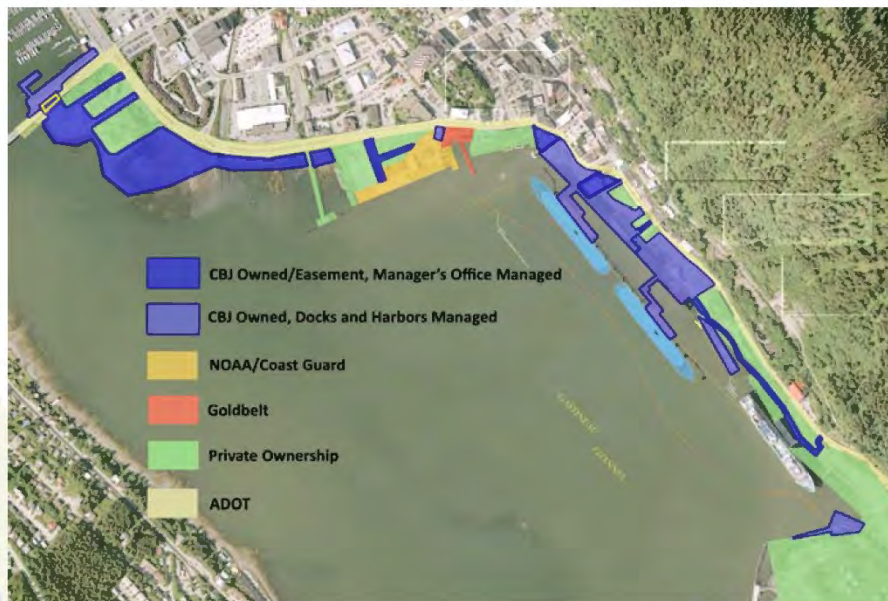
73% of survey respondents "supportive" or "very supportive"



Seawalk Construction Status



Waterfront Ownership and Management

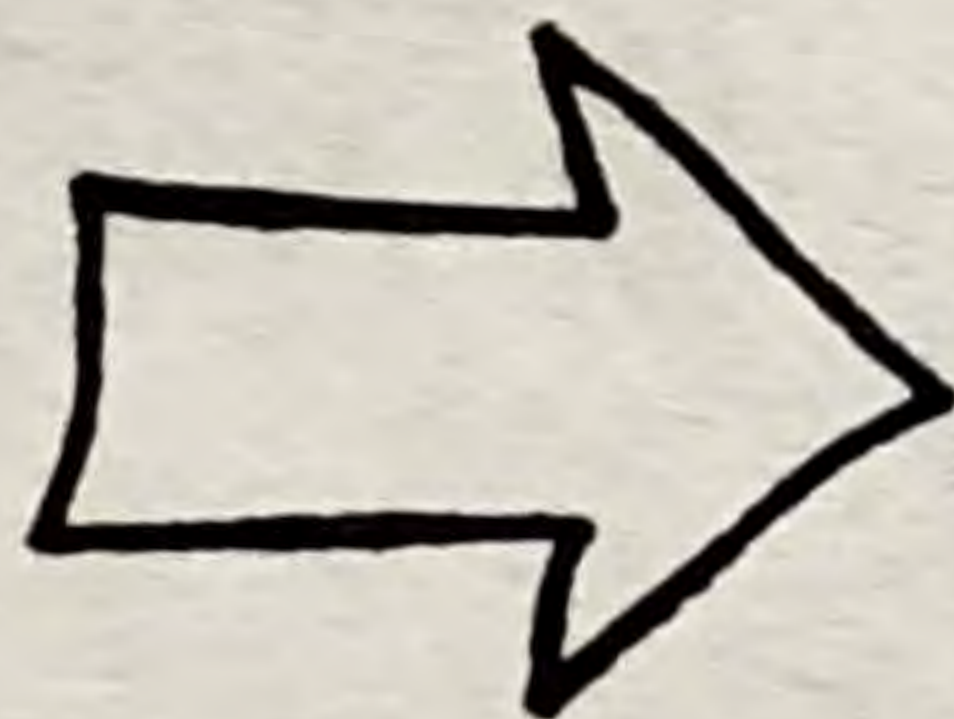


"Great waterfronts are not developed over days or months; they emerge through dedicated action by residents, waterfront users, and community leaders over a number of years. Each successful project, no matter how small, should bring new strength to the waterfront, creating a greater economic and social sum of its constituent parts." LRWP



HOW, EXACTLY, IS THE TOURISM "SAFETY VALVE" SUPPOSED TO WORK, ANYWAY?

① A HUNDRED RANDOMLY SELECTED JUNEAU RESIDENTS HAVE THEIR BIORHYTHMS ROUTINELY MONITORED TO ASSESS THEIR FEELINGS ON TOURISM.

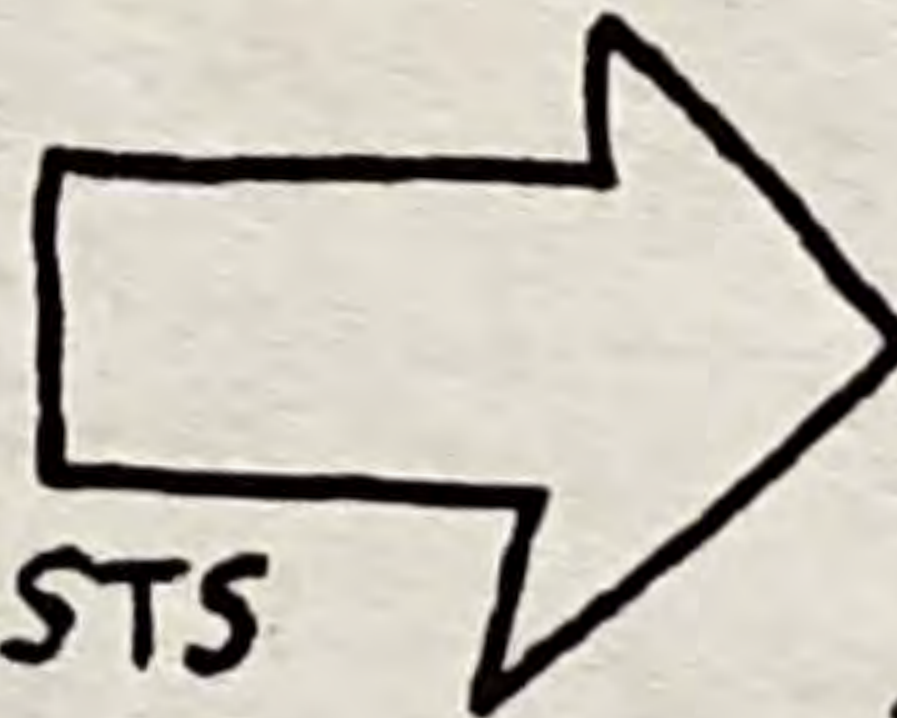


② THE PERCENTAGE THAT FEEL THERE ARE TOO MANY TOURISTS IS TRACKED AT CITY HALL.

WOW, MOST PEOPLE FEEL OKAY ABOUT TOURISM TODAY!



UH... I THINK THAT'S THE TEMPERATURE...



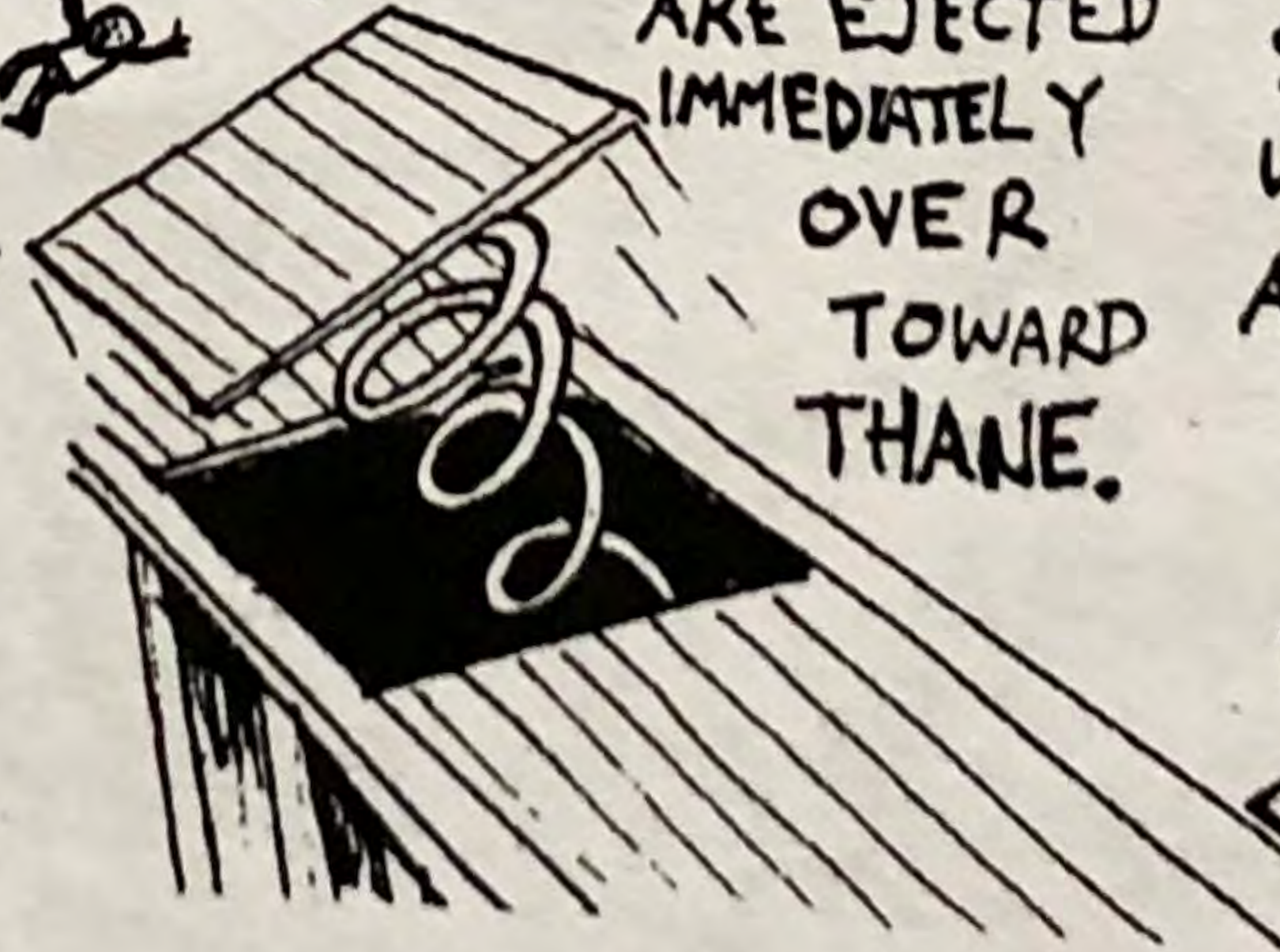
③ A CBJ LIBRARIAN SOUNDS A SIREN WHEN THE PERCENTAGE OF RESIDENTS BOTHERED BY TOURISM EXCEEDS, OH, 60%.



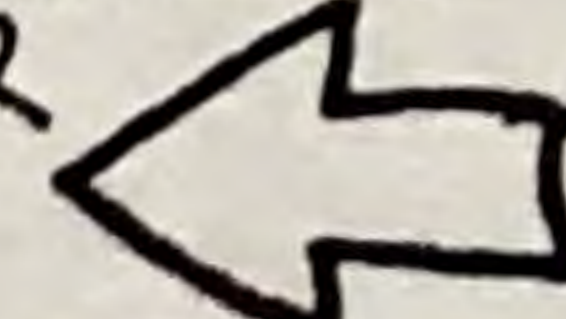
④ THE "SAFETY VALVE," LOCATED ON THE STEAMSHIP WHARF, IS ACTIVATED BY A CBJ EMPLOYEE.



⑤ ANY TOURISTS STANDING ON THE DOCK AT THAT MOMENT ARE EJECTED IMMEDIATELY OVER TOWARD THANE.



⑥ THANE RESIDENTS COMPLAIN THAT THIS IS A FORM OF FLIGHTSEEING AND CATAPULT THESE TOURISTS TO THE BACK SIDE OF DOUGLAS.



⑦ WHILE THE TOURISTS TRY TO FIND THEIR WAY BACK TO TOWN, WE TRY TO FIGURE OUT WHAT TO DO NEXT.



ANYBODY GOT ANY IDEAS?

CBJ Tourism Management Efforts 1990 - 2019

Committee/Group	Dates	Membership	Staff	Authority/Topic	Product/Outcome
Ad Hoc Floatplane and Tour Ship Noise Study Committee	1988-1989	Residents, Industry, JCVB, CBJ, FAA, Coast Guard	City Manager	Tourism related noise	Agreement between CBJ and downtown waterfront tour operators regarding noise abatement practices
Shoreside Task Force	1991	CBJ and industry	Parks & Recreation Director / Docks & Harbors	Transportation	Creation of A and B zones, access to docks for bus staging
Ad Hoc Noise Abatement Study Committee	1992-1994	Residents, Industry, Airport	Ad Hoc	Aviation noise	Recommendations including adopting the Fly Neighborly Program and conducting a noise study
Tourism Working Group	1994-1996	Assembly Subcommittee	Deputy City Manager, Tourism Coordinator	Various	Goals and steps for tourism
Tourism Advisory Committee	1997-2000	Assembly Subcommittee	Deputy City Manager, Tourism Coordinator	Various	Issues forwarded to the Planning and Policy Committee
Planning and Policy Committee	2000s	Assembly Subcommittee	Deputy City Manager, Special Projects Coordinator	Various	Standing committee that worked exclusively on tourism issues, no final recommendations
Flightseeing Noise Subcommittee	2000	Subcommittee of Planning and Policy Committee	Ad Hoc	Flightseeing noise impacts	Revolving loan for quieter float planes, best practices for flightpath and operating hours for all flightseeing operations
Trails Working Group	2001-2004	Trail management & commercial use of trails	Parks & Recreation Director	Commercial use of trails	Commercial use regulations and fees for tour operators on trails
Waterfront Committee	2002-2004	Waterfront management discussion with Assembly, Docks & Harbors Board, Planning Commission, Manager's Office, Community Development	Comprised of CBJ staff, Assembly, and Board members	Part of Waterfront planning process	Long Range Waterfront Plan
Collaboration Juneau	2003-2007	Industry, residents, non profits, CBJ	Special Projects Coordinator	Various	Expanded TBMP, dialogue around industry management, future tourism management scenarios
Assembly VITF	2019-2020	Public & 2 Assembly Members	Ad Hoc	Various	Ongoing
Project	Date	Scope	Staff	Adopted?	Outcome
An Evaluation of the Juneau Tourism Industry	1990	Evaluation to identify the next steps in tourism development	Consultant	N	Development strategies focused on improving visitor infrastructure and maintaining Juneau's position as a top destination
Downtown Tour Season Traffic Study	1994	Traffic and transportation	Consultant	NA	Identified areas of concern for congestion, bus staging, and pedestrian crossings
Tourism Policy	1995	Policy adopted at the recommendation of the Tourism Working Group - incorporated into Comprehensive Plan	CDD	Y	Policy statement: <i>It is the policy of the CBJ to encourage tourism, convention and other visitor related activities through the development of appropriate facilities and services, while protecting Juneau's natural and cultural attractions for local citizens and visitors alike, and to participate in the accommodation of the future growth of tourism in a manner that addresses both community and industry concerns</i>
Community Survey and Analysis of Effects of Tourism	1995, 1997, 1998	Public surveys	Consultant	NA	Public survey data regarding tourism impacts (positive and negative)

Juneau Visitor Industry Infrastructure Assessment, Planning Analysis and Recommendations	1996	Analysis of issues and existing infrastructure	Consultant	NA	Series of recommendations centered around CBJ taking a more active role in managing tourism
Juneau Visitor Industry, An Economic Impact Study	1997	Economic analysis	Consultant	NA	Findings on economic impacts of Juneau
Cruise Industry Impacts on Local Governments in Southeast Alaska	1998	Economic analysis	Consultant	NA	Findings on local government (Southeast Alaska) expenditures and revenues related to the cruise ship industry
Tourism Passenger Fee Initiative	1996 & 1999	Ballot measure on a "head tax"	CBJ	Y	A \$7 per passenger fee was voted down in 1996. A \$5 fee was approved by voters in 1999
Flightseeing Noise Mediation, Study, & Initiative	2000	Identifying and addressing issues related to flightseeing noise	CBJ/consultants	N	Ballot initiative to regulate noise from flightseeing tours including restricting construction of new heliports and prohibiting municipal research into new heliports. The initiative did not pass
Juneau Tourism Management Plan	2002	Tourism management policies an strategic direction	Consultant	N	Plan not adopted. Adopted Resolution is the generalized key concepts/policies
Resolution Adopting Tourism Management Policies	2002	Policies governing tourism management	CBJ	Y	Adopted by Resolution
Tourism Transportation Study	2003	Tourism transportation improvements	Consultant	N	Infrastructure and management recommendations for tourism transportation
Long Range Waterfront Plan	2004	Infrastructure planning for downtown waterfront	Consultant	Y	Infrastructure plan for downtown waterfront
State Commercial Passenger Vessel Excise Tax	2007	Statewide marine passenger "head tax"	State of Alaska	Y	A passenger fee established by the Alaska State Legislature
Parks & Recreation Commercial Use Regulation Updates	2019-2020	Update current regulation on commercial use of park properties	Parks & Recreation Staff	Ongoing	Update and public review of draft regulations December 2019 - March 2020
Ongoing Initiatives	Dates	Scope	Staff	Authority	Description
Land Use Code Revisions	1997-present	Review of the Land Use Code (Title 49) for opportunities for tourism management	CBJ CDD	Zoning and land management	A proposed ordinance in 1997 attempted to amend the Land Use Code to require tour operators to go through the CBJ Conditional Use Permit process. The Tourism Working Group instead developed 18 voluntary regulations for "Voluntary Compliance"
Voluntary Compliance	1997-2001	Industry-led compliance	Industry	Management of impacts	Started as 18 regulations. Evolved to become more positive best management practices
Tourism Best Management Practices (TBMP)	2001-present	Industry-led impact management	Industry	Management of impacts	Industry-led best management practices. Now has 98 guidelines for industry management and has been adapted for other destinations
Cruise Line Agencies of Alaska	ongoing	Dock scheduling, port agent services	Own	Port agents for Port of Juneau	Ongoing program, managed by private company
Juneau Visitor Information Program	ongoing	Providing information to visitors	Own	Visitor information	Ongoing program, staffs downtown booths
Commercial Passenger Vehicle Permitting	ongoing	Assembly process 2005	JPD, Manager's office	Permitting	Adopted by ordinance and regulation 2005
Vendor Permitting	ongoing	Permitting managed by multiple CBJ departments	Parks & Recreation, CDD, Public Works, Manager's Office	Permitting	Vendor permitting includes food trucks/carts and tour sales

LRWP Development Initiatives Status	
<u>Green = Intent Achieved</u>	<u>Ownership</u>
2003 Long Range Waterfront Master Plan Comprehensive Plan Integration	
Study of Expansion of Cruise Operations within the City and Borough	
Refinement of Design Criteria for Seawalk	
Expansion/Redevelopment of Marine Park	CBJ
Enhancement of South Franklin Street/Cruise Dock Portals	CBJ
South Franklin Street Sidewalk Expansion	DOT
Relocation of CBJ's City Maintenance Shop	
Cruise Ship Terminal Dock Expansion Design and Permitting	
Seawalk Phase 1: Marine Park and Steamship Wharf	CBJ
Public Library and Surrounding Area Improvements	
Egan Drive Improvements	
Gold Creek Marina Design, Permitting and Construction	CBJ/AJT
Security Enhancements to USCG and NOAA Facilities	Federal
Subport Redevelopment	Private
State Museum Expansion	
Redevelopment of the Little Rock Dump - Phase I	CBJ
Retail Development Along the South Side of South Franklin Street	Private
Light Industrial and/or Non-Tourism Related Marine Intensive Developments within Area E	
Mixed-Use Developments within Area A (various)	
Design, Permitting, Construction of State Capitol on Telephone Hill	State
Seawalk Phase 2: Taku Smokeries to the Franklin Street Dock	
Gateway into Downtown Juneau	
Seawalk Phase 3: Juneau- Douglas Bridge to Gold	
Streetscape Enhancements and Reorganization of Parking	
Tidelands and Gold Creek Projection Zone Enhancements	
Redevelopment of Merchant's Wharf and the Seadrome Building	CBJ/Private
Seawalk Phase 4: Marine Park to Subport	CBJ
Realignment of the City Tender Dock	
Civic Center Facility Expansion	CBJ
South Franklin Alternate Route Study and Development	CBJ/Private
Redevelopment of the AEL&P Building on South Franklin Street	AJT
Downtown Transit Center	
Redevelopment of the State Fish and Game Building	State
Streetscape Enhancements and Reorganization of Parking - Dept of Labor parking structure	State

Presented by: The Manager
Introduced: 08/05/2002
Drafted by: COW

RESOLUTION OF THE CITY AND BOROUGH OF JUNEAU, ALASKA

Serial No. 2170

A Resolution Adopting Tourism Management Policies.

WHEREAS, tourism is a basic component of Juneau's economy and affects every resident, and

WHEREAS, it is in the public interest to identify tourism issues and solutions that earn the support of the entire community, and

WHEREAS, tourism requires partnerships and collaboration in order to prosper, and

WHEREAS, these partnerships must go beyond simple coordination to include opportunities for all interested citizens to work together on policies, programs, and action plans to advance tourism that enhances the quality of life in Juneau, and

WHEREAS, these opportunities can best be provided in a collaborative process that engages all participants as peers in dialogue, mutual learning, and shared responsibility, rather than as special interest advocates, and

WHEREAS, community consensus can be difficult to achieve in a divisive or poorly attended public hearing but workable in a process that brings people together in a spirit of collaboration to generate solutions and solve issues, and

WHEREAS, in order to foster a collaborative approach to tourism issues, the Assembly directed the Manager to engage staff and outside experts in the design and implementation of a year-long public discussion of tourism planning including stakeholder interviews, public internet polls, open houses, public meetings and hearings, and

WHEREAS, this process resulted in a Draft Tourism Management Plan which was presented to the public in March of 2002, and, after extensive public comment, to the Assembly in April of 2002, and

WHEREAS, the Assembly extensively reviewed the April final draft, including holding meetings and taking public testimony at the Committee of the Whole, Planning and Policy, Public Works and Facilities, Lands, and Human Resources Committees;

NOW, THEREFORE, BE IT RESOLVED BY THE ASSEMBLY OF THE CITY AND BOROUGH OF JUNEAU, ALASKA:

Section 1. Policies. The following shall be the tourism management policies of the City and Borough of Juneau:

- A. *Vision for Tourism.* CBJ seeks a healthy and vibrant tourism sector generating business opportunities and employment for Juneau citizens, protecting Juneau's heritage and cultural values and its natural resources, and making a positive contribution to the community's quality of life.
- B. *Partnerships.* It is the policy of the CBJ to establish and support a partnership, based on collaborative discussion and cooperative action, between the community of Juneau and its local tourism industry.
- C. *Proactive Approach.* It is the policy of the CBJ to take a proactive approach to tourism management, guiding the future with a plan and an organization that will foster the evolution of tourism in Juneau. Tourism management is defined as the implementation of Juneau's tourism vision, carried out as a partnership between the industry and the community, and includes addressing economic, social, environmental, and product quality issues.
- D. *Tourism Success.* It is the policy of the CBJ to succeed at both cruise tourism and destination travel. Success entails maximizing the benefits of tourism in Juneau, while minimizing the costs and impacts; achieving the social, environmental, and economic goals that Juneau's residents and businesses seek. It is not measured by the number of visitors to Juneau, but, rather, by progress toward those goals and the vision adopted by Juneau. Success includes being good at the tourism goals that are chosen, including the quality of visitor experience.
- E. *Cruise Tourism.* It is the policy of the CBJ to strengthen and maintain its strong position in the cruise tourism marketplace, including small ship cruising, building on the mix of experiences now offered and improving the downtown business experience.
- F. *Destination Tourism.* It is the policy of the CBJ to work proactively to grow the destination travel component of the local economy, setting out to become a premier destination-combining nature, adventure, heritage, and cultural experiences-and to attract high value customers and focus on guided experiences. It is the policy of the CBJ to position itself as a small meetings and conference host serving regional and niche markets. It is the policy of the CBJ to facilitate product development to enable significant growth in the destination tourism sector. It is the policy of the CBJ to substantially enhance the attractiveness of Juneau as a destination community.

- G. *Destination Marketing.* It is the policy of the CBJ to develop a destination marketing strategy aimed at regions and niches that are a match for Juneau's experience-based tourism. The target market is people who come to Juneau to enjoy the natural and cultural experiences that are unique to this area.
- H. *Product Quality and Standards.* It is the policy of the CBJ to develop a comprehensive standards awareness and development program (for accommodations, guides and interpreters, attractions, restaurants, and the service sector) to ensure product quality commensurate with the quality expected in the high-end destination travel market.
- I. *Safety Valves.* It is the policy of the CBJ to develop viable strategies by December 31, 2003 that would go into effect if tourism growth or impacts exceed acceptable levels. These strategies, or "safety valves", will protect both community and business interests. There is a limit to the physical capacity of the downtown harbor and the narrow transit corridor along the downtown waterfront. A "safety valve" plan acknowledges such limits and, further, recognizes that the use of land and infrastructure is determined by the capacity of the natural and human-made environments to accommodate such uses without harm to the health, safety, and welfare of the citizens and visitors to the city.
- J. *Indicators.* It is the policy of the CBJ to develop measurable indicators for both cruise tourism and destination travel and to develop a process by which indicators trigger "safety valves." It is the policy of the CBJ to be proactive in updating indicators and mechanisms and to work with industry, resource managers, and the community to manage capacity and impacts before they reach indicator levels.
- K. *Roles.* It is the policy of the Assembly to meet quarterly with the Juneau Convention and Visitors Bureau to ensure that Juneau's destination marketing goals are being met, and to work closely with the Port Development Committee to provide a collaborative partnership with the Docks and Harbors Board.
- L. *Waterfront Revitalization.* It is the policy of the CBJ to develop a waterfront that enhances the image of the community, adds to the quality of life for residents, facilitates tourism, commercial activity and investment, and strengthens retail, entertainment and service activity.
- M. *Traffic and Pedestrian Movement Through Downtown.* It is the policy of the CBJ to facilitate traffic and pedestrian movements in and through downtown Juneau.

- N. *Recreational Resources.* It is the policy of the CBJ to provide a variety of high quality recreational opportunities and experiences for residents and visitors that capitalize on Juneau's remarkable resources and unique characteristics.
- O. *The CBJ Comprehensive Plan.* The provision in the Comprehensive Plan dealing with tourism has been through a very long process and is well-balanced. The current system requiring Conditional Use Permits for bed and breakfasts and similar facilities has worked well.
- P. *Helicopter Flightseeing.*
1. It is the policy of the CBJ to work with residents, operators and appropriate government agencies to implement a phased development of alternative heliports to accommodate helicopter flightseeing operations. Recent studies commissioned by the CBJ identified and suggest moving flight patterns and the associated noise in order to reduce overflights of all residential areas. The purpose of this policy is to implement those findings and relocate flightseeing operations to the periphery of our community, effectively eliminating residential overflights and noise impacts on all neighborhoods and reduce the impacts of residential areas.
 2. The manager shall work with the Juneau Tourism Partnership to consider satellite heliports. Initial steps should include conducting an initial-phase feasibility study on the construction of a new heliport at the DuPont or Sheep Creek alternatives identified in the Michael Baker Study before exploring other locations. Other locations, or other management approaches may be explored if identified as alternatives in an environmental study. The feasibility study should include:
 - a. An environmental assessment, environmental impact statement, or similar analysis, as appropriate, including access feasibility or a road improvement/extension as well as marine access and identification of mitigation measures.
 - b. Cost analysis of access alternatives.
 - c. Management/Operations Plan and associated costs.
 - d. Coordination with operators regarding development, operation and management issues.
 - e. Timeline projections for project completion.
 - f. Financing alternatives for the project.

This Comparative Analysis should be funded and conducted separately from the Juneau Tourism Management Plan and should offer conclusions and recommendations of a preferred site.

3. It is the policy of the CBJ to support the USFS Helicopter Landing Tours on the Juneau Icefield, 2003-2007 Record of Decision (ROD) dated April 16, 2002. The Alternative F selected in the ROD reflects the course of action desired by the CBJ to develop workable solutions to flightseeing issues while recognizing both the needs of the residents of Juneau and the flightseeing operators. The CBJ supports the growth of our flightseeing businesses to best serve visitors from all over the world who come seeking this unique experience. At the same time, we are committed to resolving the noise impacts that local residents experience. Our objective is to make Juneau a better place to live, work, and visit.
 4. It is the policy of the CBJ to explore significant noise reduction possibilities through the use of quiet technology and offer workable solutions for both operators and residents alike.
- Q. *Fixed-Wing Flightseeing.* It is the policy of the CBJ to work with residents, operators and appropriate government agencies to explore the establishment of a noise abatement program utilizing quiet technology for use on fixed-wing aircraft operating from the downtown Seadrome. The findings of the Michael Baker Study illustrate significant noise reduction possibilities through the use of quiet technology and offer workable solutions for both operators and residents alike.

While the CBJ commits to addressing the noise impacts associated with fixed-wing aircraft operating from the downtown Seadrome, it also recognizes the historical use of fixed-wing aircraft as an integral component of the Juneau waterfront. The CBJ acknowledges the ongoing efforts of the Gastineau Channel float plane operator, Wings of Alaska, for past upgrades to quieter equipment, limiting growth and modifying management practices to reduce noise impacts.

Section 2. Reference Materials. The policies established in this resolution shall be implemented and interpreted using the following materials:

- A. *The Juneau Tourism Management Plan* dated April, 2002 and prepared by Egret Communications/ARA Consulting. In the event of a conflict, this resolution shall prevail.
- B. The Memorandum of Understanding between the CBJ Assembly and the Docks and Harbors Board, dated July 8, 2002 shall be used to implement policy K.

C. The CBJ Comprehensive Plan reflects the commitment of citizens to the protection of the Borough's air, water, and other natural resources and shall be used to implement policies related to air and water quality and natural resource protection. See policies 3.3, 3.4, 3.5, 3.6 (pages 63-68) in the CBJ Comprehensive Plan.

Section 3. Effective Date. This resolution shall be effective immediately upon adoption.

Adopted this 5th day of August, 2002.

Sally Smith, Mayor

Attest:

Laurie J. Sica, Clerk

Vote: Unanimous



SUSTAINING A HIGH QUALITY OF LIFE FOR ALASKANS

Alaska's vibrant cruise industry must sustain a high quality of life for Alaskans while it maintains a high level of guest satisfaction. It does this by listening to local concerns and partnering with communities for workable solutions.

- Implementing and evolving programs like the Tourism Best Management and Practices
 - Provides an avenue for public engagement and solutions
- Supporting local services in port towns through ship fees
 - Crossing guards, police/fire and public-restroom maintenance
- Lowering residents' tax burdens
 - \$88.5M contributed by the visitor industry in taxes and fees to municipalities in 2017
- Building infrastructure
 - New docks, tour-operation facilities, community improvements
 - Millions in projects supporting construction industry
 - Bus-staging facilities, pedestrian-traffic barriers and docks
 - Operating hotels and restaurants year-round
- Being a good neighbor
 - Charitable contributions, surplus donations, community events
- Buying local
 - Produce, seafood and other local products for land and sea operations

THE CRUISE INDUSTRY'S FUTURE REMAINS BRIGHT

State greeted **2.24 million** visitors in 2017

Almost half came by cruise ship

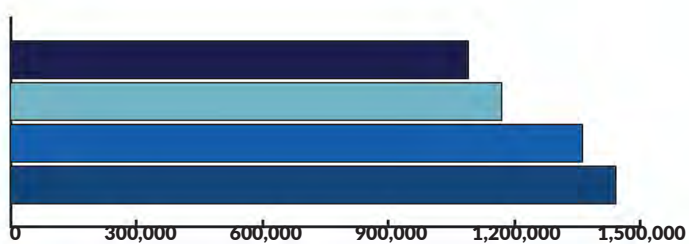
Visitors spend **\$2.8 billion**

Support **52,000** jobs, **\$1.5 billion** in payroll, that's

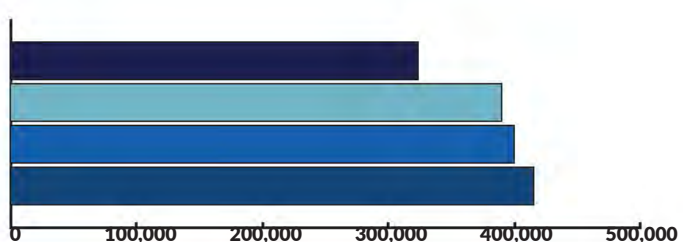
1 out of **10** Alaska jobs and a

\$4.5 billion economic impact

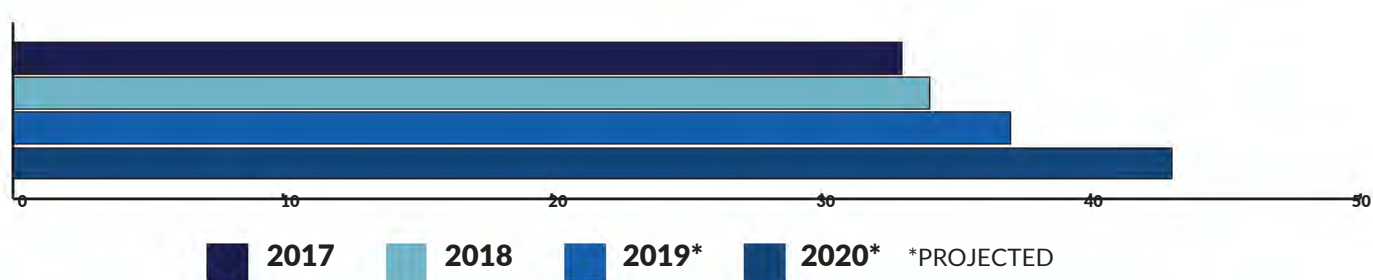
CRUISE PASSENGERS



CROSS-GULF PASSENGERS



NUMBER OF SHIPS



HOW CRUISE VISITORS TRAVEL TO AND AROUND ALASKA



INVESTING IN ALASKA'S FUTURE

THE CRUISE INDUSTRY HAS INVESTED MILLIONS OF DOLLARS IN ALASKA PROJECTS SINCE PRINCESS SENT ITS FIRST SHIP TO ALASKA IN 1969. THE INDUSTRY HAS INCREASED ITS INVESTMENT IN RECENT YEARS TO ACCOMMODATE MORE – AND LARGER – SHIPS. HERE ARE SOME RECENT PROJECTS.

\$40+
MILLION
PROJECT

ICY STRAIT POINT

Norwegian Cruise Line is partnering with a subsidiary of Huna Totem Corp. to build a new 500-foot floating dock about one-half mile north of the existing Icy Strait Point dock. Development to support the new dock includes a 3,500-square-foot welcome center; a 600-square-foot tour sales booth with a covered waiting area; two 1,600-square-foot tour assembly buildings; and a tram and bus loop. AIDEA has agreed to provide up to \$15 million for the project.

WHITE PASS AND YUKON ROUTE

Carnival Corp., through its Alaska subsidiary Holland America, is a minority investor in the White Pass and Yukon Route, a historic railroad in Skagway, as well as related docks and shoreside uplands in a \$290 million deal that closed in 2018. Three other companies – Survey Point Holdings of Ketchikan, an Alaska-based port and vessel operations group, Rail Management Services and Progeny 3 Inc. – are the other partners. The new owners are making a substantial capital investment to expand and update the properties.

WARD COVE GROUP

Ketchikan-based Ward Cove Group is partnering with Norwegian Cruise Lines and Fairbanks-based Godspeed Inc. to build a two-berth cruise dock at the site of the former Ketchikan Pulp Co. They expect the \$50 million first phase of the project to be completed by 2020.

JUNEAU'S SUPPORT PROPERTY

Norwegian Cruise Line Holdings was the winning bidder for the "Subport" property in Juneau, located on Egan Drive on the waterfront, a continuation of the industry's positive outlook in Alaska.

HOLLAND AMERICA/PRINCESS ALASKA-YUKON

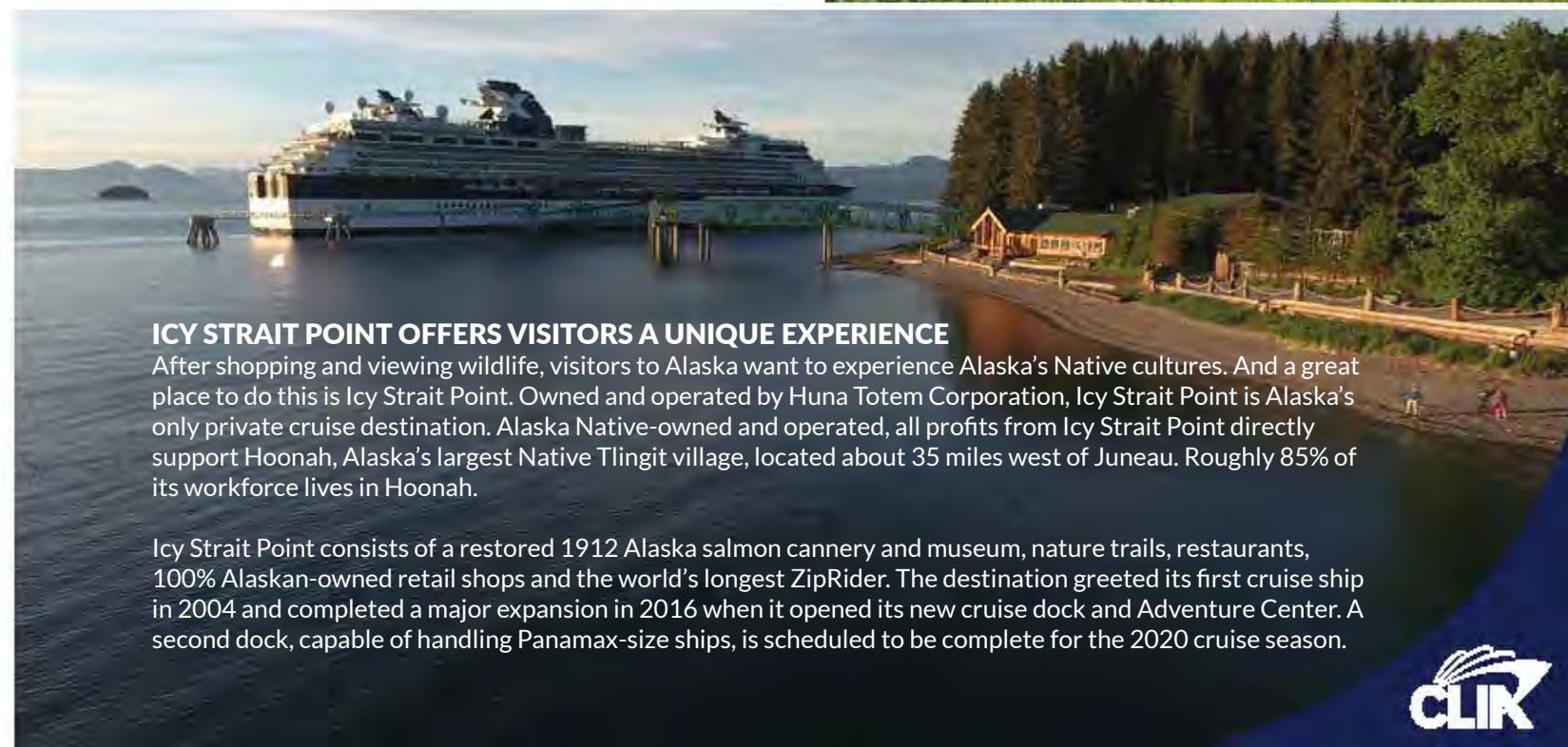
Holland America/Princess Alaska-Yukon investment in Alaska infrastructure dates back to 1987, when Holland America purchased the Westmark hotel chain and Princess opened the Denali Princess Lodge. Today, the companies operate hotels and lodges throughout the state, along with a fleet of motor coaches and luxury rail cars. Many hotel properties are open year-round to serve cruise and non-cruise travelers, along with local residents. In recent years, the companies have increased their investment in Alaska by purchasing additional properties and expanding existing properties.



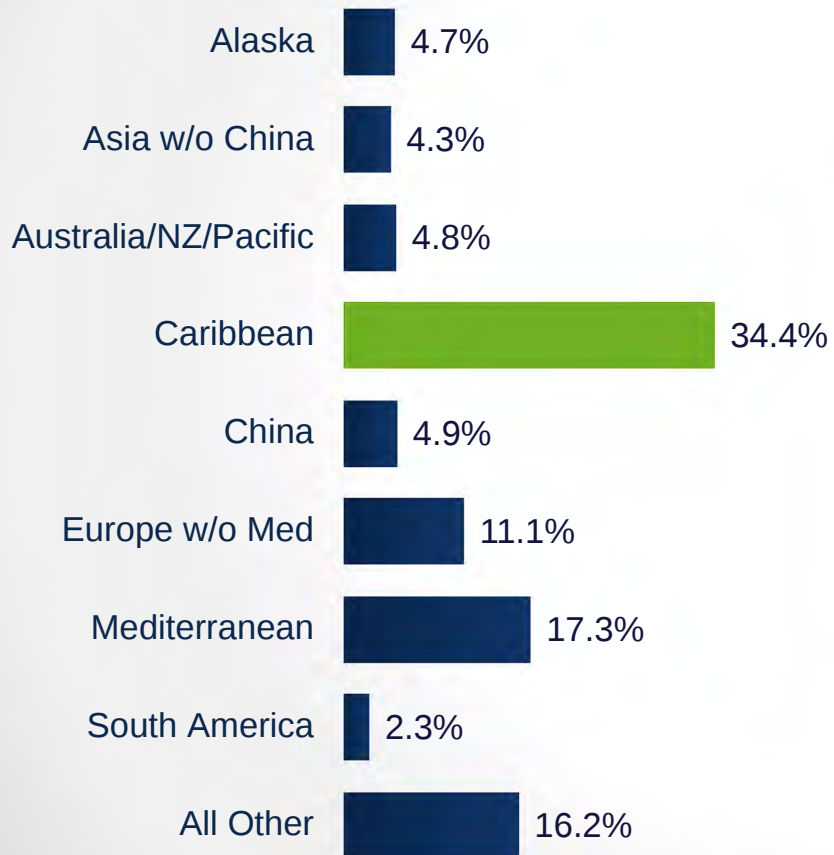
ICY STRAIT POINT OFFERS VISITORS A UNIQUE EXPERIENCE

After shopping and viewing wildlife, visitors to Alaska want to experience Alaska's Native cultures. And a great place to do this is Icy Strait Point. Owned and operated by Huna Totem Corporation, Icy Strait Point is Alaska's only private cruise destination. Alaska Native-owned and operated, all profits from Icy Strait Point directly support Hoonah, Alaska's largest Native Tlingit village, located about 35 miles west of Juneau. Roughly 85% of its workforce lives in Hoonah.

Icy Strait Point consists of a restored 1912 Alaska salmon cannery and museum, nature trails, restaurants, 100% Alaskan-owned retail shops and the world's longest ZipRider. The destination greeted its first cruise ship in 2004 and completed a major expansion in 2016 when it opened its new cruise dock and Adventure Center. A second dock, capable of handling Panamax-size ships, is scheduled to be complete for the 2020 cruise season.



DEPLOYMENT



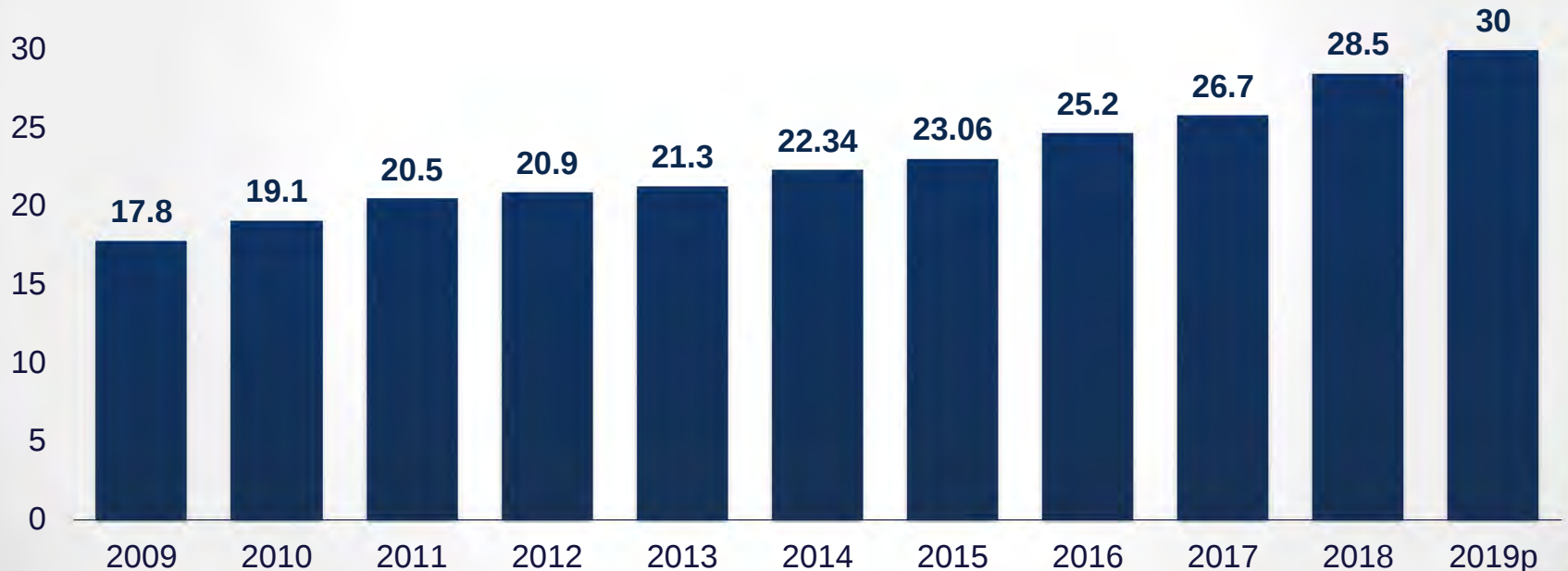
Percent of Share



2019 PASSENGER CAPACITY SNAPSHOT

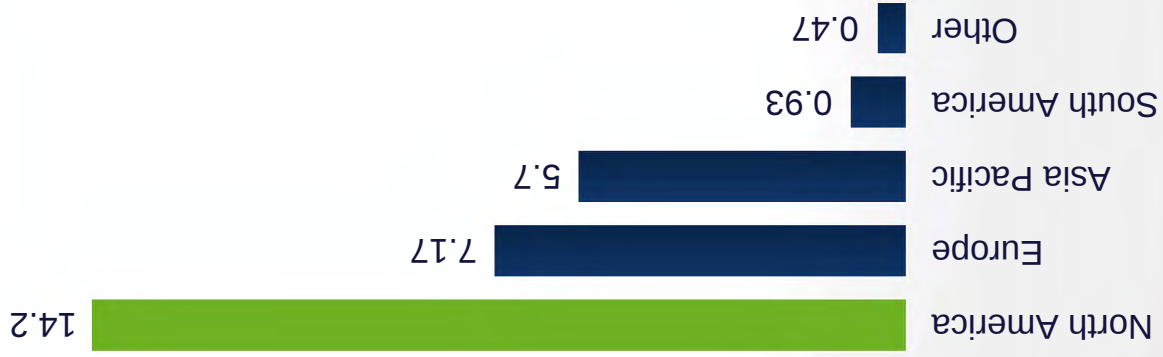
2019 = 30 Million Passengers Expected to Cruise

CLIA Global Ocean Cruise Passengers (In Millions)



p = projection

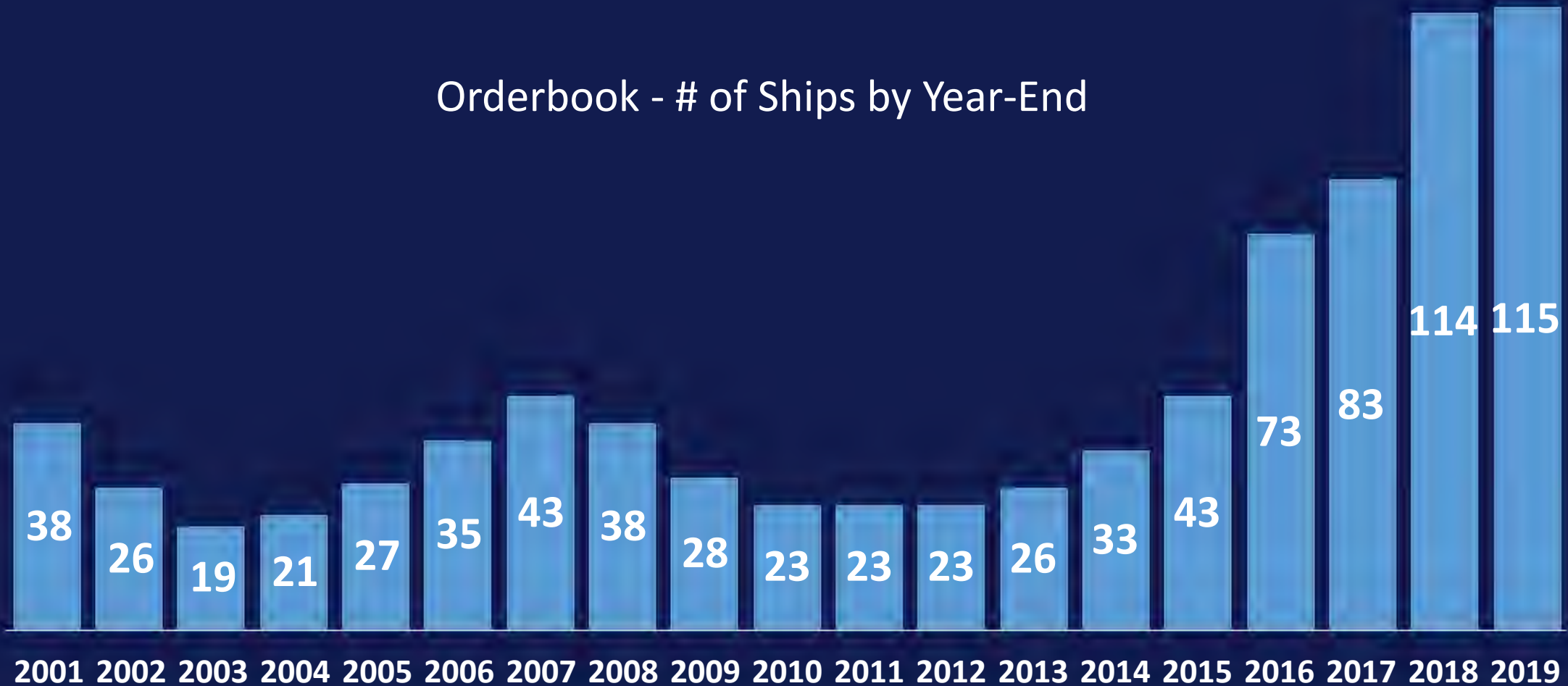
WHERE ARE PASSENGERS COMING FROM?



Passengers in Millions

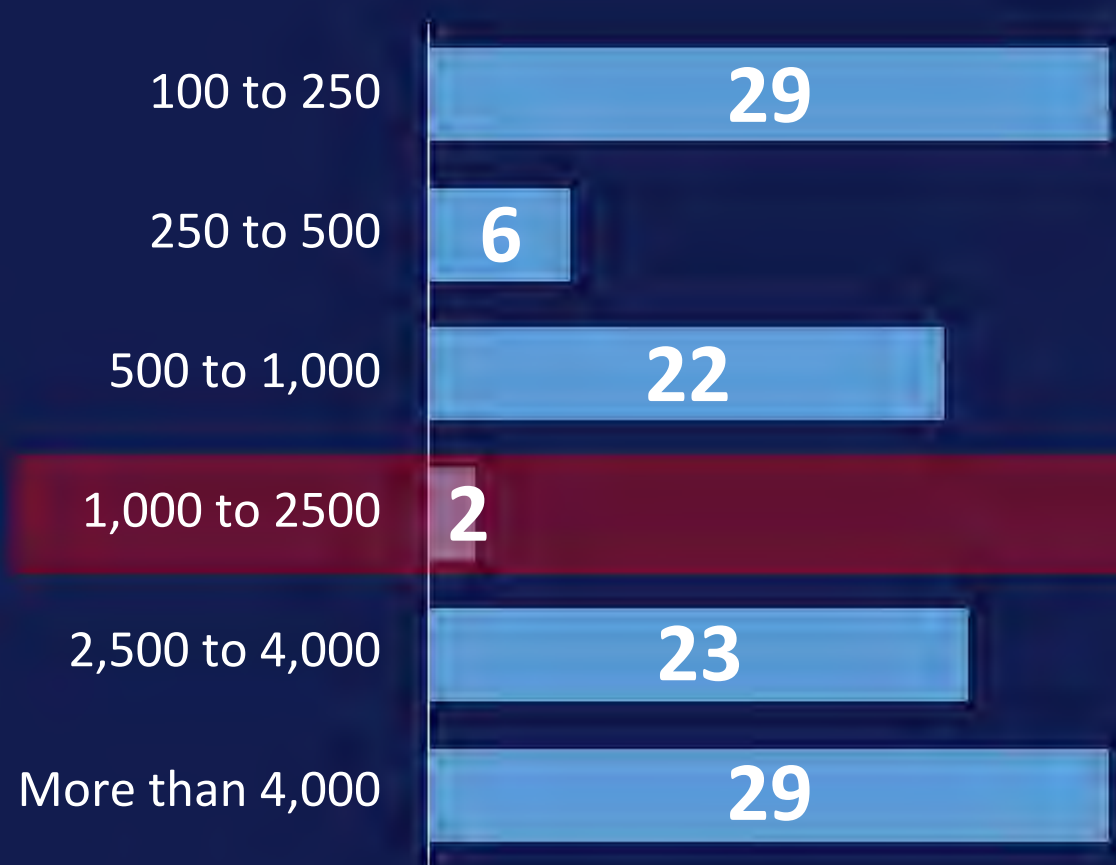
Industry on a Path to Growth as Orderbook Volume is Accelerating

Orderbook - # of Ships by Year-End

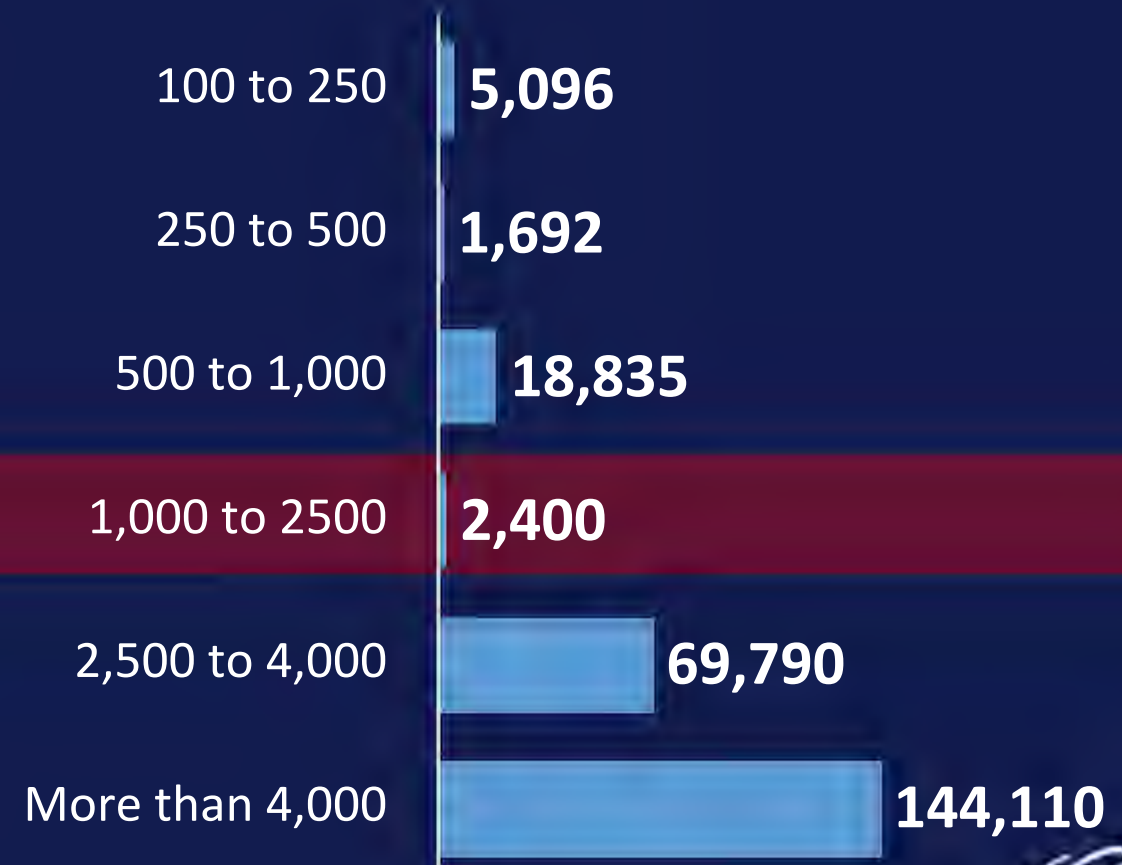


The Average Mid-Size Cruise Ship is Gone

Number of Cruise Ships By Size Range
Current Orderbook



Total Lower Berth Volume By Size Range
Current Orderbook



APPENDIX I

CRUISE MARKET STUDY

Cruise Market Assessment

Prepared for:



January 4, 2019



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DISCLAIMER

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This document may include "forward-looking statements". These statements relate to B&A's expectations, beliefs, intentions or strategies regarding the future. These statements may be identified by the use of words like "anticipate," "believe," "estimate," "expect," "intend," "may," "plan," "project," "will," "should," "seek," and similar expressions. The forward-looking statements reflect B&A's views and assumptions with respect to future events as of the date of this study and are subject to future economic conditions, and other risks and uncertainties. Actual and future results and trends could differ materially from those set forth in such statements due to various factors, including, without limitation, those discussed in this study. These factors are beyond B&A's ability to control or predict. Accordingly, B&A makes no

warranty or representation that any of the projected values or results contained in this study will actually be achieved. This study is qualified in its entirety by, and should be considered in light of, these limitations, conditions and considerations. Specifically:

- This report includes forecasts, projections and other predictive statements that represent our assumptions and expectations considering currently available information.
- Forward looking statements apply only as of the date of this document and are expressly qualified in their entirety by the cautionary statements included in this document.
- These forecasts are based on industry trends, and subject to circumstances involving current users, the economy, political issues, and other factors, and they involve risks, variables and uncertainties. Large variations may occur from year to year as certain vessels join or are withdrawn from the market.
- Inevitably, some assumptions will not materialize, and unanticipated events and circumstances may affect the ultimate results. Issues such as accidents, taxes, terrorism and financial markets may have significant impacts on the actual results.

Glossary of Terms

Air Draft

The maximum height of a vessel above the waterline.

Apron

Area immediately adjacent to the vessel berth where lines, provisioning, gangway and other operations occur.

Available Passenger Cruise Days (APCD)

The formula cruise lines typically use to assess and compare cruise itineraries from a financial perspective.

Anchorage

Location where a vessel may anchor. In destinations where docks are not present to accommodate vessel operations, anchorages are used and passengers are shuttled to/from the cruise vessel to a landside location using a small boat (tender). Anchorages are generally only used in ports-of-call.

B2B

This is a marketing term meaning Business to Business.

B2C

This is a marketing term meaning Business to Consumer.

Beam

The width of the cruise vessel at its widest part.

Bed (Berth) Nights

A typical cruise industry form of capacity measurement representing the number of lower berths (a bed on a cruise vessel, with the aggregate total generally determining the vessel's nominal passenger capacity) multiplied by nights of operation in a region.

Berth

(1) A bed, generally attached to the deck and/or bulkhead onboard a vessel.

(2) An anchorage or dock space for a vessel in port.

Bunkers

Marine fuel used for propulsion.

Cabotage Laws

Legislation and/or regulation relating to the ability of foreign-flagged vessels to transport goods and passengers between domestic ports. Cabotage Laws are often put into place to protect domestic cruise vessel industries.

Capacity (Lower Berth)

The number of beds of standard height on a cruise vessel. The number of lower berths determines the vessel's nominal passenger capacity. *Maximum Passenger Capacity* refers to the total number of passengers that can be accommodated on the cruise vessel in lower berths and other flexible berths (also referred to as *upper berths*).

Coasting Trade Act (Canada)

The Coasting Trade Act is Canadian legislation/regulation that supports Canadian marine interests by reserving the coasting trade of Canada to Canadian registered vessels. This Act effectively prohibits foreign-flagged vessels from embarking passengers in one Canadian port and debarking them in another Canadian port. Essentially the Canadian equivalent of the Passenger Services Act in the US.

Conventional Cruises (Homeport Cruises with Destination and Port-of-Call Cruises)

Leisure-oriented voyages on deep-water, ocean-going cruise vessels of two or more nights often to a variety of destinations. Conventional cruises are offered either by regional or international operators marketing to a variety of consumer sectors and nationalities.

Cruise Brand

Term referring to individual cruise vessel operating companies (e.g. Royal Caribbean International, Celebrity Cruises, Azamara Club Cruises) to distinguish them from their corporate holding companies (e.g. Royal Caribbean Cruises Ltd). Cruise brand and cruise line are sometimes used interchangeably. However, for purposes of this report, cruise brand refers specifically to each individual company that operates a fleet of same-brand cruise vessels (e.g. Celebrity) while cruise line refers more generally to the corporate holding company (e.g. RCCL). See Cruise Line.

Cruise Line

For purposes of this report, cruise line is used to describe a corporate holding company with one or more cruise brand(s) operating under its corporate umbrella. Carnival Corporation and Plc (Carnival), for example, is a cruise line parent company that owns and operates distinct global cruise brands.

Cruises-to-Nowhere (Homeport Cruises without Destination)

Generally geared toward a local consumer market (within a one-hour drive) with the mainstay of the cruise experience being focused around on-board gaming, food and entertainment.

Deadweight Tonnage

Refers to the actual weight of cargo, fuel and stores required to bring the vessel down to her load-line marks.

Displacement Tonnage

The amount of water displaced by the vessel or the actual weight of the vessel. This measure is not often used to describe cruise vessels, but it is meaningful in describing military vessels and the structural capacity of port and terminal facilities. It is typically applied to a vessel in normal operating state (i.e. with fuel and stores on board).

Dockage

Fees levied by a port or destination for the right to dock a vessel.

Draft

The depth of water required by a vessel to float; the measurement in meters (or feet) of the extent to which the vessel projects below the surface of the water.

Emission Control Area (ECA)

Geographic boundaries established through treaties to provide for decreased NOx and SOx emissions in select zones such as North America and Europe.

Ferry

Term usually applied to a vessel transporting passengers and/or vehicles from point to point. The key difference between these operations and conventional cruises is that ferry operations have as their primary business focus offering transportation services, not a travel and leisure experience.

Gross Tonnage (GT)

A measure of a vessel's enclosed volume. This term has emerged as the standard measure of communicating a vessel's size. A *mega-vessel* generally refers to a vessel of 70,000 GT or larger.

Ground Transportation Area (GTA)

Zone in which vehicles, including buses, taxis and private cars are organized and accessed as part of cruise terminal/destination embarkation and disembarkation activities.

Homeport

A marine facility and destination city that serves as the base of operations from which the cruise begins and/or terminates.

Itinerary

Sailing routes and ports visited on a given cruise. Two itinerary types are generally observed. *Open-jaw (OJ) itineraries* refer to those deployments where the cruise begins at one homeport and ends at another. *Round-trip (RT) or Closed-jaw itineraries*—the more common type observed—begin and end from the same homeport.

In Bond

Baggage that transits directly to and from the port and airport and has a customs approval allowing for a single inspection. It is secured baggage.

Interporting

The practice of allowing cruise passengers to embark and debark in multiple ports throughout an itinerary pattern. This is to some degree similar to a ferry on a longer routing.

Length Overall (LOA)

Total length of a cruise vessel in meters (or feet), including any incidental structure that may extend this dimension.

Liquid Natural Gas (LNG)

Liquid Natural Gas is a fuel that is seeing use in the marine industry. Ferry operators and small cruise vessels have built vessels with this fuel source. Carnival Corporation is in the process of designing four new builds with LNG fuel as their main source of propulsion.

Mixed-Use Facility

Refers to a facility or complex with more than one type of real estate or operational use. Mixed-use facilities generally: (1) are contiguous in nature; (2) are developed within a broader master plan constructed at one time or in phases; and (3) provide for a symbiotic relationship to occur among all uses such that the sum of the mixed-use facility from a real estate or operational perspective is greater than its parts. Mixed-use maritime facilities often include cruise, ferry, marina, commercial, residential, recreational and other upland transportation facilities.

Neo-Panamax

Vessels classified as Neo-Panamax are of the maximum dimensions that will fit through the newest set of locks in operation by the Panama Canal (427 m/1,401 ft long by 55 m/180 ft wide by 18.3 m/60 ft in depth).

Panamax

Vessels classified as Panamax are of the maximum dimensions that will fit through the original locks of the Panama Canal (304 m long by 33.5 m wide by 25.9 m deep). Thus a Panamax vessel will usually have dimension of close to 294 m/965 ft long by 32.3 m/106 ft wide by 12.04 m/39.5 ft in depth. See Beam.

Passenger Services Act (US)

Under the Passenger Vessel Services Act of 1886 (46 USC §289), commonly referred to as the Passenger Services Act, foreign-flagged vessels cannot transport passengers directly between U.S. ports. Essentially the US equivalent of the Canadian Coasting Trade Act as pertains to cruise ships.

Passenger Tax (Head Tax)

Port charge assessed against each passenger aboard a standard cruise vessel. Generally the principal income stream to ports and destinations for accommodating cruise activities.

Peak (or Peaking)

Period of greatest intensity of use or volume. Peak days for cruise activity that, on average, see the greatest number of cruise ship calls and/or passenger debarkations during the course of a given cruise season.

Penetration Rate

Percentage of the total population of a given region that takes a cruise in a given year. For example, in 2016, North America had a penetration rate for cruise of 2.3% (13.34 million cruisers/579 million total population).

Port-of-call

One of several destinations visited as part of a cruise itinerary. The focus of the port-of-call is on tourism activities adjacent to the cruise arrival area and the transportation of passengers to regional points of interest.

Post-Panamax

Size standard that exceeds the largest vessel dimension capable of transiting the original Panama Canal locks (304 m long by 33.5 m wide by 25.9 m in depth). Generally based on the beam and LOA of the vessel. See Beam.

Private Island

Island destinations primarily located in the Caribbean and Central America that are owned and/or developed for exclusive or semi-exclusive use by a single cruise company (cruise line) and its proprietary brands.

Revenue Passenger

This generally refers to homeport passengers or in some very limited cases port-of-call passengers (e.g. Vancouver, where all passengers are charged on/off the vessel), whereby passenger counts reflect the Port's passenger wharfage or tariff rate charging policy. For homeport calls the actual number of passengers is doubled to show that the cruise operator is charged by the port for the passenger embarking debarking the vessel at a set fee.

Ro-Ro

Maritime term for roll-on/roll-off cargo such as passenger vehicles, semi-trailer trucks, trailers, buses, railcars, tanks, etc. that are driven on and off the ship under their own power or using a platform vehicle, such as a truck and trailer or self-propelled modular transporter.

Super-Post Panamax

Generally refers to the largest cruise vessels in existence today. This is also a general term for the largest cargo vessels in existence today. These vessels are defined not only by their dimensions, but also their carrying capacity of more than 3,000+ passengers and GT approaching and exceeding 150,000.

Terminal

Building where cruise passengers embark and/or debark in a homeport destination.

Transit Passenger

By literal definition, the status of cruise passengers at a port-of-call.

Use Ratio (Utilization Percentage)

The ratio of days that a berth is actually occupied to available berth days (total calls/total available berth days). For example, in a year-round market, a single berth is theoretically

available for a total of 365 days. If that berth receives 52 calls (one vessel sailing weekly roundtrip itineraries year-round) then its use ratio is .142, or 14.2% (52/365).

1 INTRODUCTION

The Port of Ketchikan retained the services of Bermello Ajamil & Partners, Inc. to assist in the assessment of future cruise pier infrastructure to meet the needs of the cruise lines moving forward. This report serves as a key market assessment to provide for the potential growth of the Alaska market and Ketchikan over the next 10-year period.

Competition

Vessel deployment is driven by consumer demand. Cruise Lines place their vessels into regions where they get the best return on investment. Essentially they are looking for regions that are in high demand; provide for low operating costs; and, in the final calculations provide the highest level of profit.

The Alaska region inclusive of sailings from and to Seattle, Vancouver, San Francisco and the mainland ports of British Columbia and Alaska provide for strong consumer demand that provides for higher than average ticket pricing and excellent shoreside revenue opportunities from a variety of shore excursion options. The cost of operations is higher overall than comparable summer destinations such as Bermuda and Canada & New England, while it is seen as on par or lower than Northern Europe and the Mediterranean regions.

Thus, deployments are driven by profitability and net yields. The cruise brands provide what the consumer wants (based on vacation patterns) via different itinerary offerings that cater to the desired demographic of the brand. The line crafts an overall product with marquee destinations, shipboard experiences and intrigue with new ports (every demographic may be slightly different) and other attributes to entice the consumer to sail on their ships. It is generally the responsibility of the region or destination to sell themselves to the consumer. The Alaska region does this well through word of mouth and general Alaska branded tourism advertising.

In Alaska the cruise lines also attempt to limit the balance between the time in port required to deliver the product and provide for revenue production vs. the cost of the port visit and fuel consumption between ports. This is critical on the round trip sailings in the region due to speed & distance parameters and the use of downstream berth infrastructure on critical weekdays. Due to the level of investment the key cruise brands have in the Alaska region (coaches, trains, tour operations, destination infrastructure, hotels, etc.) the brands also work to offer itinerary patterns that take advantage of these investments and amenities. Additionally, strategic ports where they may have an agreement that saves them on cost of operations and / or improves passenger satisfaction are also ports where they will frequent.

Figure 1 provides an overview of the cruise vessel deployments for 2018 based upon passenger capacity placement. As shown, Alaska provides for the 5th highest passenger deployment figures and primarily competes for summer traffic with Northern Europe. Most of today's cruise traffic is built around the North American and European consumer base, but new markets are being built in Asia-Pacific and Australia as well. Other key North American consumer base regions include the West Coast, Caribbean/Bahamas, Canada & New England and Bermuda. Key European regions are shown as the Mediterranean, NW Europe, Trans Atlantic and Canary Islands.

Figure 1: Primary regions based upon passenger capacity, 2018

Source: Cruise Industry News Annual and B&A, 2018



For Alaska, the ability to continue to provide for higher than average per diems as compared to competing destinations will offset the higher operating costs within the region. However, the region needs to continually monitor this balance and ensure that the revenue opportunities are strong.

It is important to recognize and address the growth of the European and Asian cruise consumer market into the mid- to long-term as these will certainly be the larger growth markets into the future for all destinations. Alaska will need to establish itself in these markets to ensure continued passenger demand. The region already caters to Asian-demographic based visitors on many of the brands deployed to the region including Princess Cruises and RCI. Preparing for future deployments and cruise visitors from Asia and Europe is critical to long-term regional success in terms of hard and soft infrastructure.

Regional selection criteria

Table 1 outlines the primary cruise line selection criteria for destinations on a regional or port basis for itinerary planning processes. These are separated into four distinct areas. Each is important, but it is necessary to address each of these key components in order to meet the needs and expectations of the cruise industry.

Marketing and Sales is the key deployment driver based upon consumer awareness and demand. Marine operations also play a key role in ensuring the itinerary pattern routing and ports provide a safe and secure environment for the cruise vessel and passengers. All of these areas work together on the formulation of final itineraries.

Table 1: Deployment and itinerary planning selection criteria

Marketing and sales	Marine and operations
• Consumer awareness and education • Access to consumers – sales chains • Marketability for the consumer • Fit with cruise brand philosophies • Fit with consumer holiday patterns	• Marine navigation and access • Security • Berth, apron and terminal features • Ground transportation areas • Provisioning
• Landside – revenue opportunities • Airlift – capacity and cost • Lodging – capacity and cost • Consumer product satisfaction • Destination venue and tour capacities	• Port charges • Labor, fuel and other operating costs • Regulatory and environmental issues • Maritime law • Emission Control Areas
Logistics, air and shore excursions	Finance and legal

Lines are focused on cruise itineraries that are easy to sell to cruise consumers (a marquee destination with demand). They also must be profitable (per diem vs. cost of operations) and provide for an up sell to cruise consumers (strong revenue opportunities). This is accomplished through the creation of cruise itineraries that fit within consumer vacation patterns (typically 4-day, 5-day and 7-day patterns) dependent upon the demographic. Deployment of cruise vessels close to base cruise consumer groups is also driving growth of markets. Cruise brands use revenue / yield management tools to identify pricing schemes that fit their demographic.

Cruise lines mix homeports and a majority of ports-of-call that are known commodities to consumers in order to market cruise pattern successfully. What ports qualify as “marquee” or “new” is to a great degree dependent upon the cruise brand and their targeted consumer group. For instance, a HAL passenger may know many more ports worldwide and sailed more often than a first time Carnival Cruise Line passenger. Thus, sailings to the same region would likely be made up of slightly different cruise destinations to meet the demands of each consumer group.

Cruise itinerary composition is an exercise in balance. Ports visited ideally need to offer a balance of shopping, natural, cultural and historical attractions coupled with periods at sea and at ports-of-call. Itinerary planning begins from 18 months to three years before the cruise when “straw itineraries” are developed by the marketing department as placeholders for the cruise brand vessels. Placing the right cruise vessel in the right itinerary is a key to the overall success of a cruise line. Not all cruise homeports or ports-of-call fit every cruise line brand’s philosophy – they cannot be everything to all lines. In the mid-term itinerary planning will continue to be driven by profitability and net yields. Lines will limit time in ports and yet expect to create value experiences.

Cruise lines prefer to utilize ports where they can control the costs and product offerings, such as their private island destinations by example. However, in both cases the

passenger demand for these ports is a key and cannot be overlooked. Moving forward there will be more pressure on regions and ports to keep expenses low and regulatory issues in check.

Based up cruise line input the primary Alaska regional issues that affect deployment are the cost of homeport operations, specifically those fees that cannot be passed along to the passengers, such as stevedoring, pilotage, environmental monitoring; weekend homeport berth availability; downstream weekday berth availability; and, passenger satisfaction related to port operations. Additionally, outside influences also play a role in vessel deployments.

Regional volatility – primarily in the Asia/Pacific and Mediterranean over the past two years provides for an impetus to redeploy vessels to more stable and safe cruise areas inclusive of Alaska. Dependent upon the world situation this will push some ships into the region as cruise passengers demand safe and comfortable holiday experiences.

Alaska region moving forward

- Over the next 5 – 10 years the cruise industry focus will be on the development of the China and regional Asia consumer markets. Alaska will need to compete directly for this traffic, albeit at a limited level, due to the primarily captive North American market. The addition of the Asian consumer to Alaska will increase overall deployment numbers to the region.
- Other competitive regions are pulling cruise vessel deployments to open new consumer markets. The Alaska region must show strength to command consumer demand, higher yields and lower overall costs of operations.
- Alaska is seen as a safe cruise destination by the industry. With any threats, cruise lines will ensure they can use Alaska for vessel deployments.
- The expansion of the Panama Canal allows for the larger vessels to easily deploy to the West Coast of the United States and an easy transition to Alaska. This will continue to positively impact the region as cruise brands look to increase Alaska capacity by replacing smaller vessels with larger ships over the next 2 to 5-years.

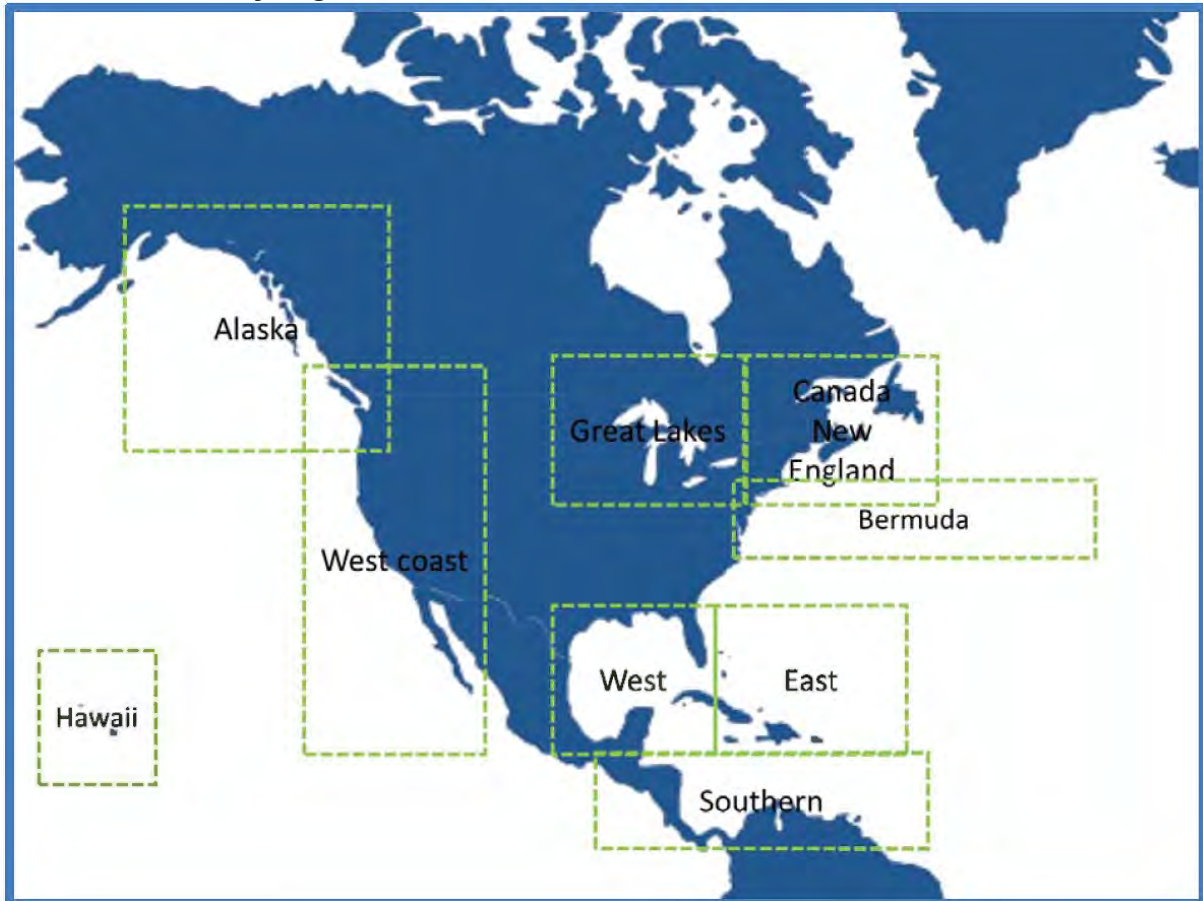
Alaska

As shown, Alaska is a significant summer market for the cruise industry that provides excellent revenue opportunities for cruise lines and continues to attract high cruise consumer demand from North American consumers as well as benefitting from increased “discovery” by international customers. According to Cruise Lines International Association (CLIA) of Alaska, Alaska surpassed the 1 million passenger mark in 2016 for the first time since 2009 and set a new record for total passengers (1.042 million) in 2017. For final tallies there are some 1.16-million beds (cruise capacity) in 2018.

The deployment of newer ships with larger passenger capacities and an extension of the cruise season has spurred this growth. Moving forward, most regional growth will come from the replacement of smaller vessels with larger ships (vs. the deployment of vessels on

new itinerary patterns). Instability in larger cruise regions such as Asia and the Mediterranean will also give a competitive advantage to the Alaskan market as the key North American brands look to deploy their assets in safe zones where consumers feel secure and revenues are more available. Alaska is a key North American consumer base. See below for other key North American consumer driven regions in close proximity to the core consumer.

North American Key Regional Markets

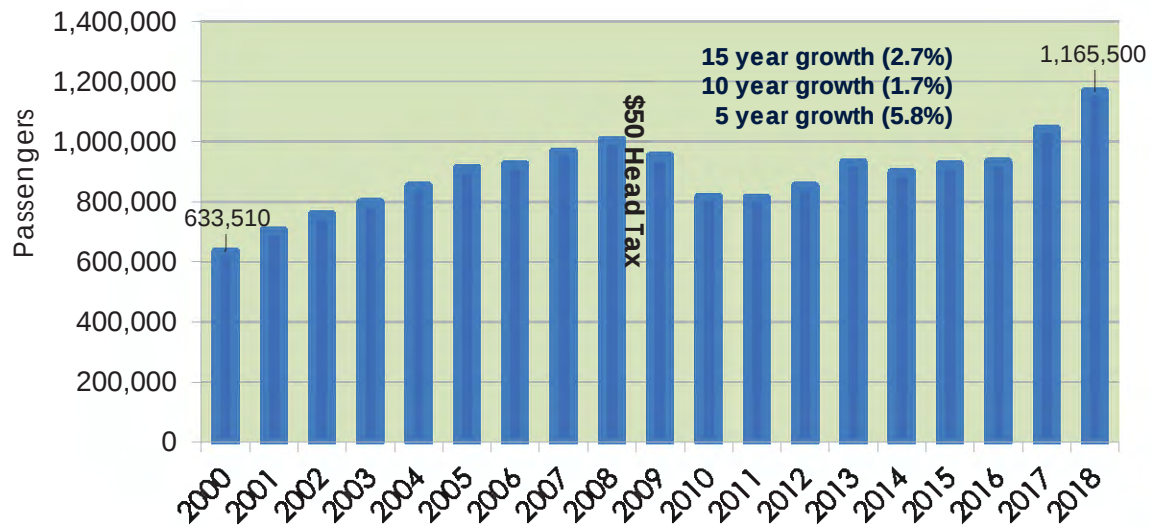


The Alaska region dominates the west coast cruising landscape for the North American market. Despite cruise capacity pulled from the region in 2008/2009, sparked by Alaska imposed taxation and regulatory issues, the region is now even more important as a revenue generator to the industry. In the past year Alaska has seen deployments of the largest vessels to touch the ports, such as the *Norwegian Bliss* (4,100-pax) and is expanding its cruise market share with the arrival of the RCI *Ovation of the Seas* (will not be calling on Ketchikan) and NCL's *Norwegian Joy* in 2019 sailing from the Port of Seattle.

Alaska has seen steady growth over more than 25-years. Vessel deployments and passenger numbers fell from 2009 after peaking in 2008 with more than 1-million passengers (See Figure 2). The region began to stabilize in 2012 and has been growing rapidly from 2016. Despite ECA and other long-term operational cost challenges faced by the cruise industry in the region it will see growth in the mid-term buoyed primarily by North American passenger demand, but new cruise arrivals will also come from Asia.

Figure 2: Alaska cruise passengers, 2000 - 2018

Source: B&A



The Alaska region consists of itineraries encompassing the Pacific Northwest, Western Canada (BC) and the Alaskan Coast. It is partially influenced by traffic from Hawaii, Pacific Coastal, Trans-Pacific and World cruises that are characteristically single repositioning sailings to or through the region. Southeast Alaska, including the primary homeports★; marquee Alaska ports★; and, secondary ports★ are shown below.



The key large vessel cruise patterns include the following:

- **Inside Passage (round-trip cruise):** This cruise itinerary pattern is the primary staple of the Southeast Alaska cruise program for the major North American Cruise Lines operating in the region. This is a typical 7-night cruise pattern that has historically departed from Seattle with larger vessels and feeds the Alaskan region. More than any other pattern this has become the standard marketing itinerary and has the most consumer recognition. The main Alaskan ports included are Ketchikan, Juneau and Skagway. Victoria is the important far-foreign port required for this pattern to operate;
- **Open-Jaw (one-way cruise):** Cruise itineraries within this sector all originate at present from the homeports of Vancouver in the south and Seward or Whittier in the north of the region for the large North American cruise ships. Due to geographic location, this itinerary provides for limited options in terms of variation on the standard duration and ports in Southeast Alaska. The major cruise lines in this market are Princess Cruises, Holland America and RCI/Celebrity Cruises. Each of these cruise brands also owns, operates and supports infrastructure that offers pre- and post-interior packages from Seward as well as Canadian Rocky Mountain trips from Vancouver;
- **Alaska Coastal / Repositioning:** This market sector is offered by cruise lines to move their cruise ships into place and out of the Alaska region and in particular to the homeports from winter cruise markets or providing for unique longer exploration sailings through the region. To capitalize on the marketing value of Alaska this cruise sector delivers the key ports of Juneau, Skagway and Ketchikan, as well as other smaller ports.

The standard 7-Night Alaska cruise (8-day) offers a variety of shore excursion products in the ports-of-call as well as extensive land-based pre- and post-programs that provides for added value to the cruise line. See the 2017 large ship deployment in Table 2.

Table 2: Large ship cruise deployment, 2017

Source: B&A

	Sailings	Pct	Pax	Pct	Capacity
Open Jaw N	107	20.8%	169,264	16.5%	1,582
Open Jaw S	106	20.6%	167,226	16.3%	1,578
RT Vancouver	103	20.0%	199,640	19.4%	1,938
RT Seattle	169	32.8%	430,454	41.9%	2,547
RT San Francisco	14	2.7%	36,288	3.5%	2,592
Repo Van - Sea	4	0.8%	8,034	0.8%	2,009
Repo Sea - Van	5	1.0%	8,718	0.8%	1,744
Repo SF - Van	1	0.2%	684	0.1%	684
Repo Van - SF	3	0.6%	1,316	0.1%	439
Repo SD - Van	1	0.2%	1,750	0.2%	1,750
Repo Van - SD	1	0.2%	1,750	0.2%	1,750
Coastal	1	0.2%	2,124	0.2%	2,124
	515	100%	1,027,248	100%	1,995

The small ship adventure sailings in 2017 have also seen a resurgence in the region with a majority of the small pocket cruise vessels sailings in the State of Alaska due to their flagging and ease of access between the primary homeports in Juneau and Ketchikan. Larger exploration / luxury vessels explore the whole of the region including Alaska, British Columbia and the Pacific Northwest. See Table 3.

Table 3: Small ship cruise deployment, 2017

Source: B&A

	Sailings	Pct	Pax	Pct	Capacity
AK / HI	4	1.7%	248	1.7%	62
OJ Ketchikan	4	1.7%	248	1.7%	62
AK Coastal	24	10.3%	1,792	12.0%	75
Repo Sea - Sitka	2	0.9%	200	1.3%	100
RT Juneau	133	56.8%	8,828	59.0%	66
OJ Nome - Van	2	0.9%	528	3.5%	264
OJ Sea - Jun	4	1.7%	400	2.7%	100
Glacier Bay	30	12.8%	1,951	13.0%	65
Inside Passage	8	3.4%	320	2.1%	40
SE Explorer	7	3.0%	298	2.0%	43
Misty Fjord	16	6.8%	160	1.1%	10
	234	100%	14,973	100%	64

Table 4 provides the passenger berth capacity for the 2018 cruise season. At a typical 110% capacity range this generated some 1,165,500 total cruise visitors to the region.

Table 4: Cruise ship capacity deployment, 2018

Source: Cruise Industry News Annual

Brand	Vessels	Berth Capacity	Market Share
HAG	16	616,780	58.1%
Princess Cruises	7	342,100	32.2%
Holland America	7	234,480	22.1%
Carnival	1	35,700	3.4%
Seabourn	1	4,500	0.4%
RCCL	6	212,696	20.1%
Royal Caribbean Intl.	2	87,800	8.3%
Celebrity Cruises	3	118,500	11.2%
Silversea	1	6,396	0.6%
NCL	5	183,012	17.2%
Norwegian Cruise Line	3	162,600	15.3%
Regent Cruises	1	11,520	1.1%
Oceania Cruises	1	8,892	0.8%
Others	17	50,332	4.6%
Disney Cruise Line	1	28,000	2.6%
Un-Cruise	7	8,392	0.8%
Crystal Cruises	1	4,800	0.5%
American Cruise Line	1	2,210	0.2%
Windstar	1	1,632	0.1%
Ponant	2	524	0.01%
Lindblad	4	4,774	0.4%
Totals	45	1,062,740	100%

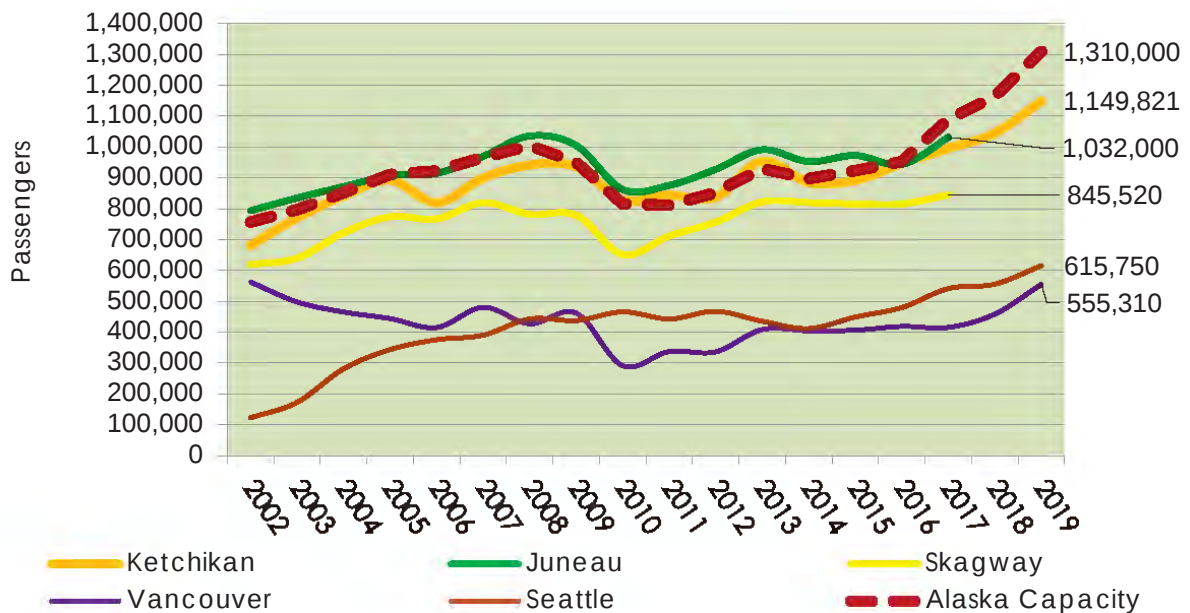
Key Alaska ports

With the main itinerary options presented in the region there are 3 “marquee” Alaska destinations – Ketchikan, Juneau, and Skagway. The secondary Alaska options are Sitka, Icy Straits and Seward. The glacier options are Glacier Bay, Hubbard and Sawyer. The strategic “marquee” BC Port-of-call destination is Victoria. Secondary BC Ports-of-call include Icy Straits, Sitka and Haines. The primary challenges for the development of new itinerary options are speed & distance and existing Alaska port competition.

Figure 3 shows the passenger throughput for the marquee Alaska ports of call; key homeports of Seattle and Vancouver; and, the passenger throughput totals for the region. As shown, most passengers visit the three marquee destinations in Alaska.

Figure 3: Alaska passenger throughput, 2002 – 2019 est.

Source: B&A



Seattle and Vancouver are the key homeports for the region along with Seward and San Francisco. In August 2015, the Port of Seattle signed a 15-year lease with Norwegian Cruise Line Holdings, the parent company of Norwegian Cruise Line, Oceania Cruises and Regent Seven Seas Cruises. The agreement included a \$30 million investment in Pier 66 to be shared equally by NCLH and the Port of Seattle that was completed for the deployment of the *Norwegian Bliss* in 2018. The Port is also contemplating the potential expansion of a new cruise facility at Pier 46 and is currently undergoing a due diligence process to examine the potential investment options / partnerships for a future facility.

The Port of Vancouver has three cruise berths available on a daily basis at Canada Place. This does not take into consideration an actual operating capacity of the cruise facilities, which are well below industry standards for length of wait on / off a cruise vessel. The facility is critically undersized and offers logistical challenges. It provides for 3 panamax ship berths with berth lengths of 1,663-ft., 1,060-ft. and 950-ft. This 3rd berth will be obsolete in 3 to 5 years. Due to its inner harbor location there is an approximate 62-m. air draft limitation due to the Lion's Gate Bridge, which also impacts the potential for growth as it does not consistently accommodate large cruise ships. A private operator in conjunction with the Port is currently looking at a cruise facility to accommodate up to two large vessels for homeport operations on the Fraser River. This will greatly assist the port and future growth options for the Alaska region.

Future Growth Factors

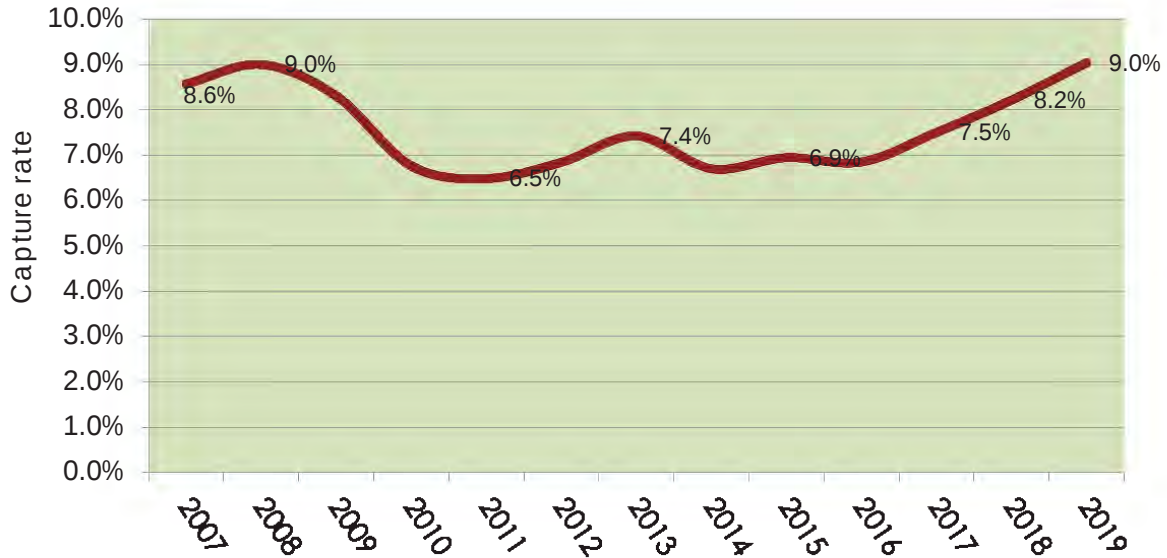
Alaska is limited by a lack of infrastructure for both Homeport and the downstream marquee Ports-of-call. After years of stable traffic – growth from 2018 forward, there is a push to place larger vessels into the region such as the NCL introduction of the first super-mega in the market – *Norwegian Bliss* (4,100 pax). The introduction is triggering responses by other brands with larger ships and it is certain that Princess and HAL will add more capacity as their ships age out. Growth will occur through the introduction of larger

vessels such as the *Norwegian Joy* and *Ovation of the Seas* in 2019. Then, new capacity will kick in as the new lines arrive such as MSC (after 2021), Virgin (after 2023), Genting (after 2020).

Figure 4 illustrates the Alaska market share of the primary North American consumer base for the region. Moving forward the trend is 9.4% based upon tracking.

Figure 4: Alaska share of North American Market, 2007 – 2019 est.

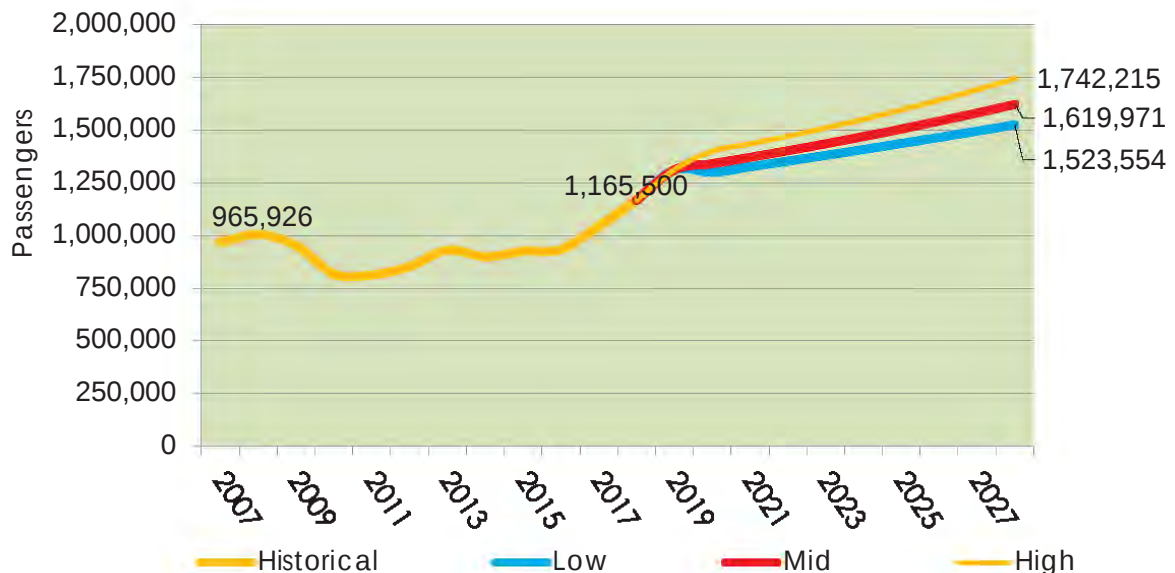
Source: B&A



Based upon the North American market capture rate; cruise brand interviews and the known impacts of additional deployments to the region over the next 3 – 5 year period Figure 5 shows the growth of the Alaska passenger market over the next ten years. The range of growth is from 2.7% to 4.1% moving to between 1.5 and 1.74-million passengers.

Figure 5: Alaska forecasts, 2007 – 2019 est.

Source: B&A



Alaska Growth Drivers

- The Alaska region will maintain a stable base for cruise operations, unless the State of Alaska makes changes to cruise tax policy.
- Downstream ports of call will be required to have berths capable of handling up to 1,200-ft. vessels (4 to 5 berths long-term).
- Upland infrastructure needs to accommodate daily loads of between 15,000 – 22,000 visitors per peak day.
- Growth from brands not currently in the market will likely occur in peak season and off peak weekdays allowing for more utilization of downstream berths.
- Limited weekend homeport berths in Vancouver and Seattle coupled with weekday berth congestion in the key downstream ports of Juneau, Ketchikan and Skagway may cause issues if new infrastructure is not brought on line quickly.
- Saturation of the upland support infrastructure in the Alaska communities such as sidewalks, water & sewer is an issue with so many persons in the community at one time. This must be dealt with as well.
- New homeport and downstream berths are required outside of the marquee ports for growth including Icy Straits, Sitka, Haines, etc.
- Alaska is making a significant jump into the +4,000 passenger ships. There must be much effort put into the process of expanding and using infrastructure to its maximum capacity for growth to occur.

3 KETCHIKAN

Overview

The City of Ketchikan has grown up with the Alaska cruising and has become one of the 3 major ports in the region. Ketchikan as a destination provides for numerous activities from land-based excursions to fishing and flightseeing, as well as a robust downtown core with retail options and unique sights and venues. Situated as the southernmost port in Southeast Alaska, Ketchikan is often the gateway or last port in the Alaska itinerary pattern. It fits well in a variety of patterns including the round trip and open jaw cruises that are most popular from both Seattle and Vancouver. In addition, the port is also used by smaller pocket exploration vessels sailing within Alaska waters as a port of call and homeport.

Figure 6 illustrates the cruise passenger throughput levels from 2000 – 2019 projected. There has been a 10-year growth of 2.1% compound annual growth rate (CAGR) and a 5-year of 5.4%.

Figure 6: Cruise passenger throughput, 2000 – 2019 proj.

Source: B&A

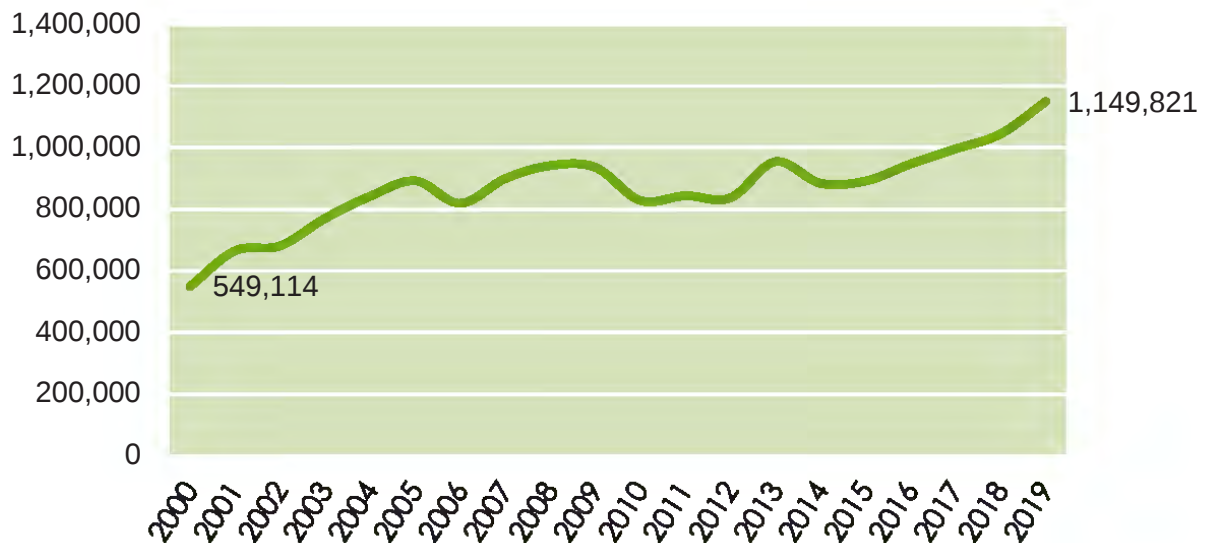


Figure 7 shows the number of corresponding cruise calls.

Figure 7: Cruise calls, 2000 – 2019 proj.

Source: B&A

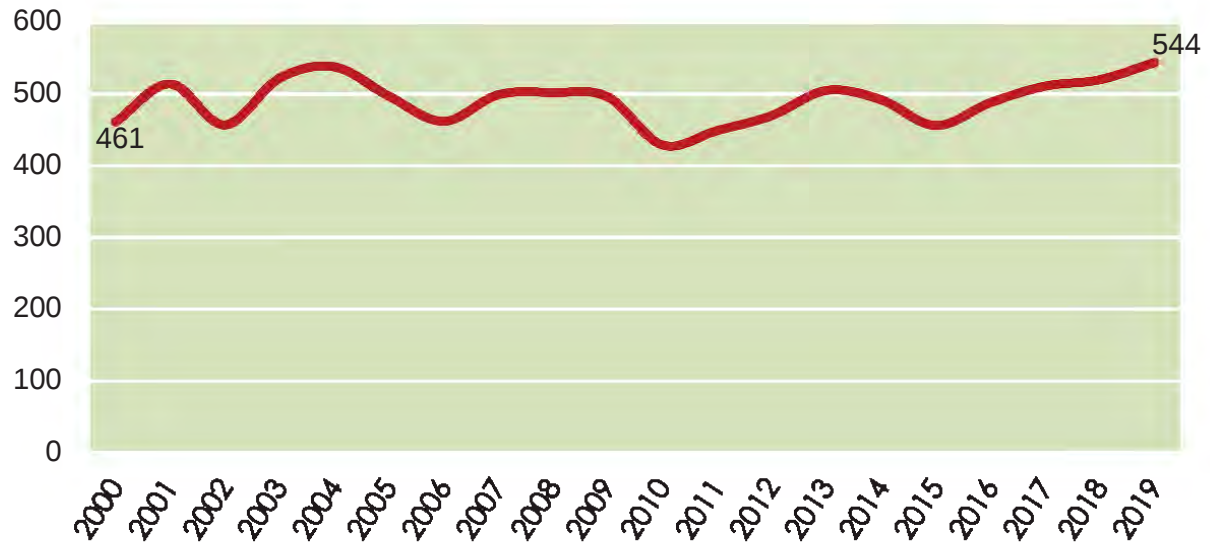
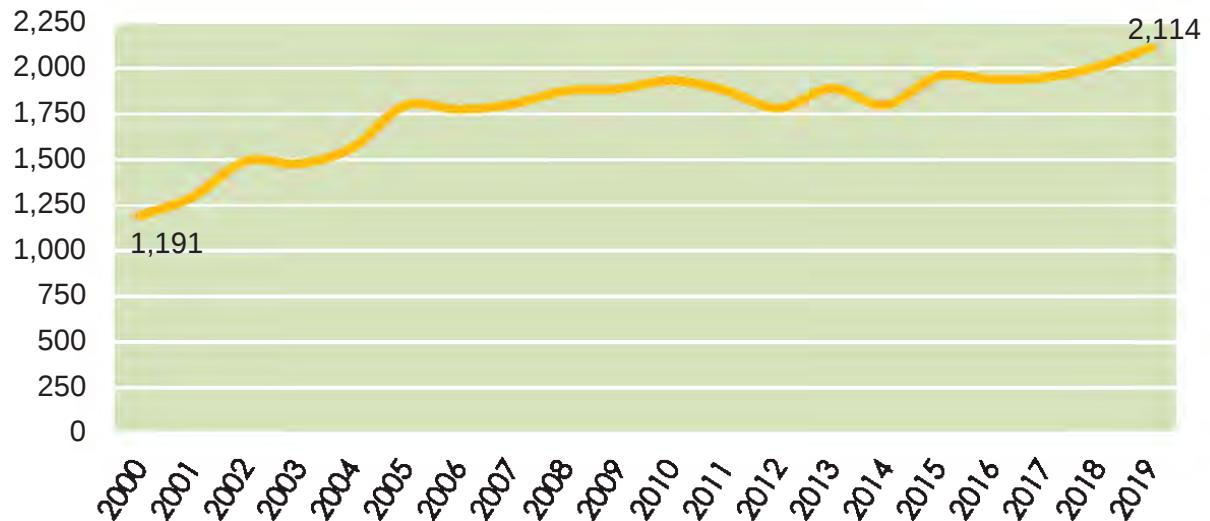


Figure 8 shows the passenger capacity per vessel call. Growth for the region and Ketchikan has primarily occurred through the deployment of larger ships over the period (923-passenger per vessel growth) vs. an additional 83 total calls or approx. 4 added calls per annum.

Figure 8: Passengers per cruise call, 2000 – 2019 proj.

Source: B&A



Alaska seasonality as it relates to Ketchikan is outlined in Figure 9 as peaking occurs as spring departs the region and the summer months move into Alaska and then traffic declines at the end of October as vessels move out of the region to winter itinerary patterns in the Caribbean, West Coast and other areas that passengers demand during the season.

Figure 9: Seasonality, 2016 – 2018

Source: B&A

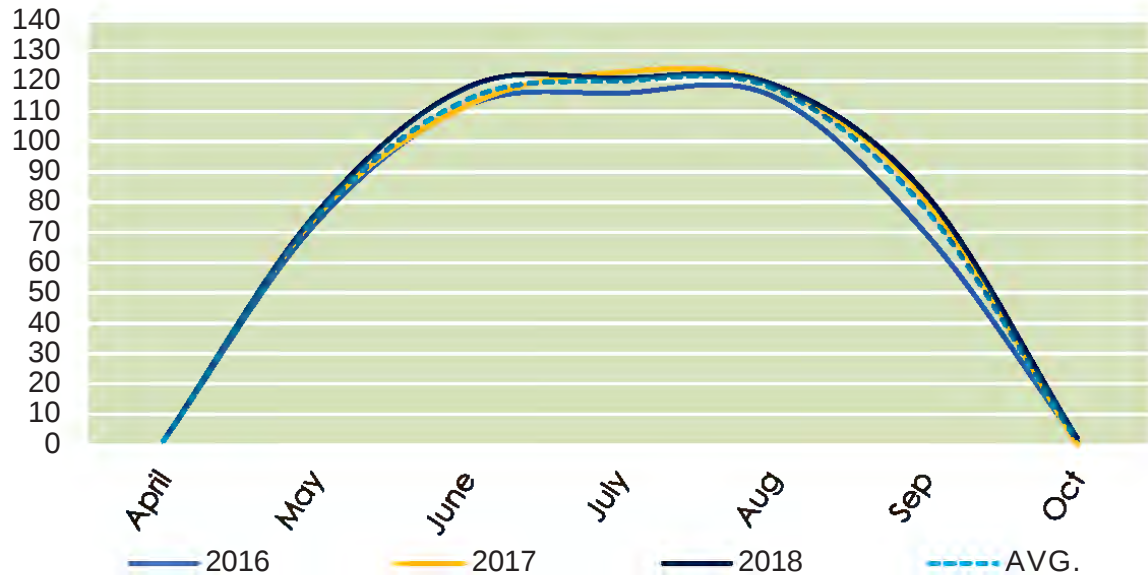
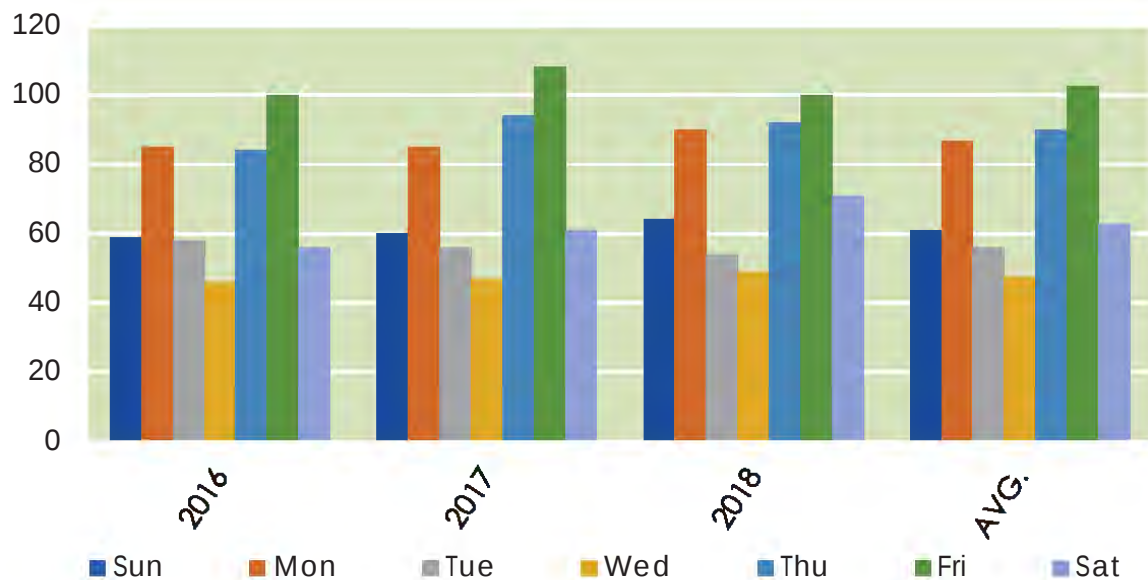


Figure 10 shows the daily throughput of cruise calls during the Alaska cruise season. Monday, Thursday and Friday have the largest loads as vessels are entering into or departing the region.

Figure 10: Daily cruise calls, 2016 - 2018

Source: B&A



4 PROJECTIONS

Cruise projections are used as to assist in determining the future scenarios associated with cruise demand for Ketchikan. These projections assess the current industry trends and venture to establish how these trends may change and impact future cruise passenger and vessel throughput on a world, regional (Alaska) and local (Ketchikan) scale over a 10-year planning period (2019 - 2029).

The projection models are based upon an examination of Ketchikan's existing position in world and regional cruise deployments, levels and types of cruise operations, and overall traffic patterns based on the most probable range of passenger (first) and vessel (second) throughput. The assessment includes the growth analysis of the regional future trends for Alaska. Additionally adjacent regional traffic and worldwide regional markets may also impact Ketchikan's ability to obtain passenger traffic.

Projections are un-constrained in nature and do not take into account the potential berth capacity, utilization or other limiting factors of homeports or downstream ports. Projection models used include:

- **Scenarios based on cruise line trends and opportunities.** These are the key for growth options. Assembling a scenario that is actionable based upon cruise line deployment needs and expectations is the overall framework of these projections.
- **Market Capture.** Based upon historic trends in the regional patterns how will Ketchikan fare in competing for cruise traffic in the marketplace.

For the purposes of our projections we have assumed the growth rates will moderate over time. The assumptions are that the Alaska region will maintain a stable base for cruise operations with the likelihood of a small deployment from the Asia / European market within 2 - 5 years. However, it should be noted that most of the vessels sailing in the region today do market outside of North American and there has already been a significant increase in the number of European and Asian consumers that visit the region on these primarily North American based ships. There will be a tipping point whereas these markets demand additional berths in the region, thus new deployments. However, there are other issues at play including the pull from closer regions producing solid revenues and the potential for a lack of cruise berths (homeport / downstream) in the theatre.

Market capture projection model

The market capture approach is based upon Ketchikan's past track record for capturing a percentage of all passengers in the region on a multitude of itinerary patterns. An assumption is then made as to the future ability to capture a percentage of the overall Alaskan market over the 10-year period. Ketchikan's historical cruise passenger capture rate for the past 5 years is ~ 94.2%, while the trend moving forward is 85.4% primarily due to the addition of new berths in Icy Straits and the lack of larger berths / uplands to accommodate all of the ships sailing through the region. Moving forward an average of 89.7% was used to determine future throughput based upon the low to high Alaska regional projection model. Historical market capture rates are shown in Figure 11.

Figure 11: Ketchikan market capture rates, 2005 – 2019 est.

Source: B&A

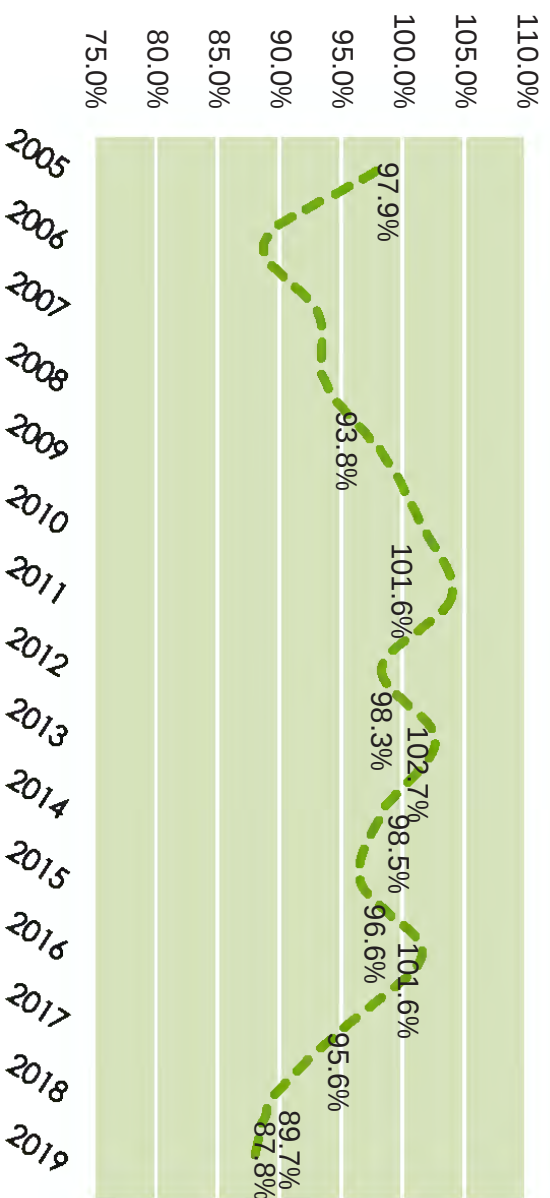
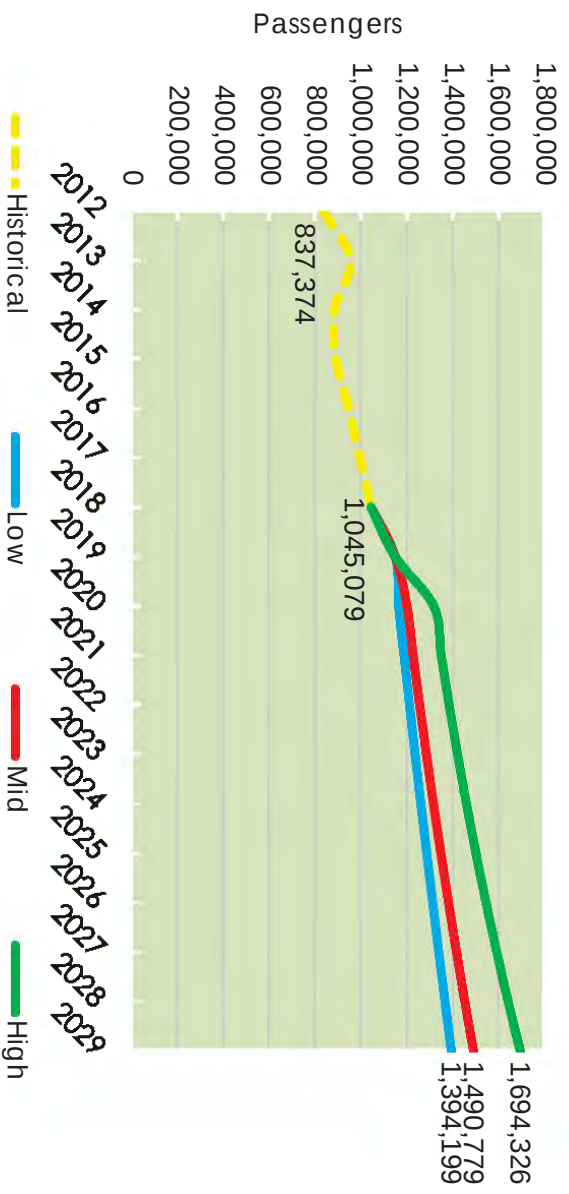


Figure 12 illustrates the potential passenger throughput for Ketchikan based solely on market capture over the next 10-year period. Projections are based upon a future 89.7% market capture rate. The growth range is from 1.9% to 4.0% per annum allowing for cruise passenger throughput to range from 1.36 to 1.64 million in 2029 on 590 to 717 cruise calls for the season at 2,363-passengers per call.

Figure 12: Market capture passenger projection, 2012 – 2029

Source: B&A



Cruise scenario projection model

Under this approach, based upon past trends of the cruise industry, marketplace assumptions have been made as to the deployment of cruise vessels to Ketchikan primarily as a port-of-call for large cruise vessels from 2019 forward. This scenario approach require additional work on the part of the destination to grow traffic or in turn may also impact traffic through constrained growth or the implementation of infrastructure or policies that limit or change growth patterns.

Scenarios were assembled illustrating levels of deployment to the region and specifically, Ketchikan. We have established the ship size and range of vessel calls for based upon our interpretation of the potential growth of the region, seasonality, type of vessels that will be likely deployed to the region; and, historical context as it relates to the types of itineraries in the region and movement of vessels in and out of the region.

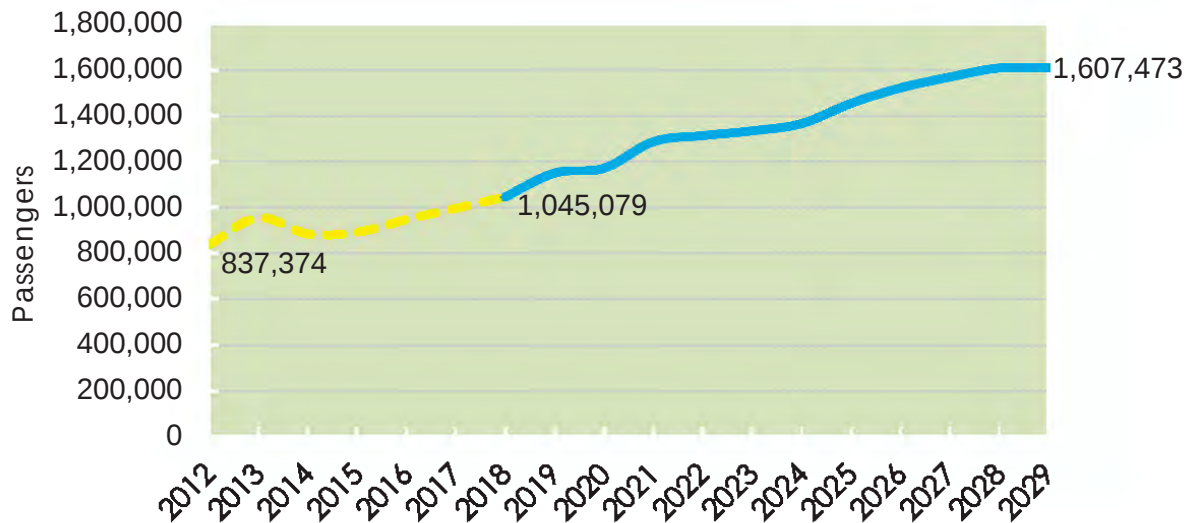
• HAL Next Gen 1 (replace Amsterdam 2020)	16
• HAL Next Gen 2 (replace Volendam 2022)	21
• HAL Next Gen 3 (replace Oosterdam 2024)	21
• HAL Next Gen 4 (replace Westerdam 2026)	21
• CARN Next Gen 1 (replace Legend 2021)	21
• CARN Next Gen 1 (New 2024)	21
• PRIN Next Gen 1 (replace Coral 2021)	20
• PRIN Next Gen 2 (replace Island 2023)	11
• PRIN Next Gen 3 (replace Golden 2025)	20
• PRIN Next Gen 4 (replace Star 2027)	20
• CEL Next Gen (replace Millennium 2023)	18
• Disney 2 (added 2027)	11
• Viking 2 (added 2026)	11
• MSC Gen 1 (Mkt. entry 2021)	18
• MSC Gen 2 (Mkt. entry 2025)	18
• Dream Class 1 (Mkt entry 2021)	18
• Dream Class 2 (Mkt. entry 2028)	18
• Virgin Class 1 (mkt. entry 2026)	16

These dates and specific brands could ultimately shift as demand either grows or wanes for the region, but it does provide a baseline from which to craft a strategy moving forward.

Figure 13 shows the scenario growth at 3.4% CAGR with vessel capacity growth of 1.7% per annum moving to 2,492-passengers per call on 645 calls in 2029.

Figure 13: Market capture passenger projection, 2012 – 2029

Source: B&A

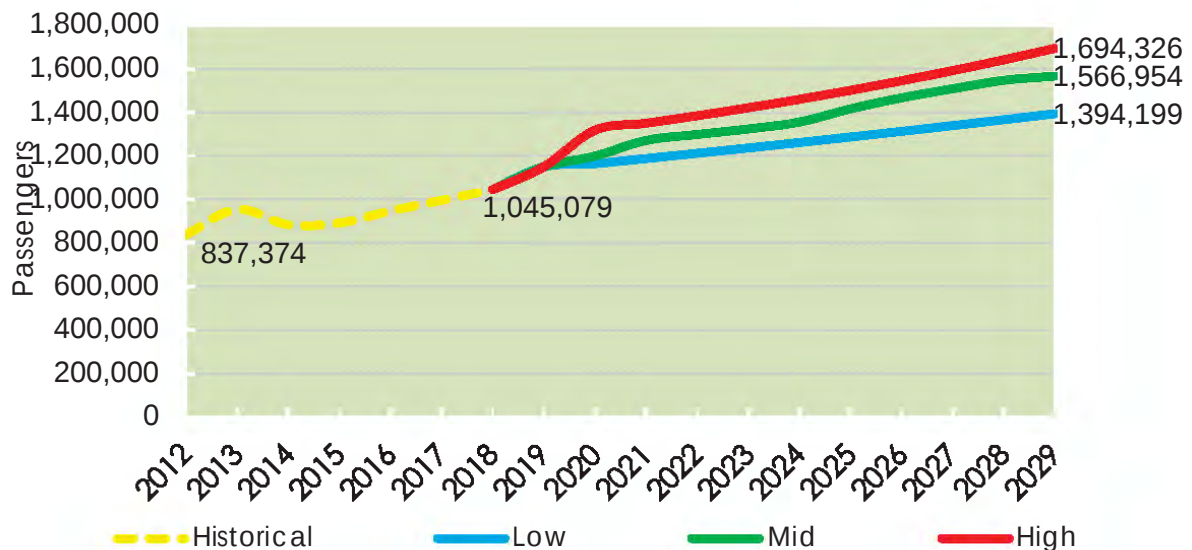


Projection range and composite

A projection range and composite is shown in Figure 14 (Low to High). This may be the most likely market composite for Ketchikan.

Figure 14: Range of passenger projections, 2012 – 2029

Source: B&A



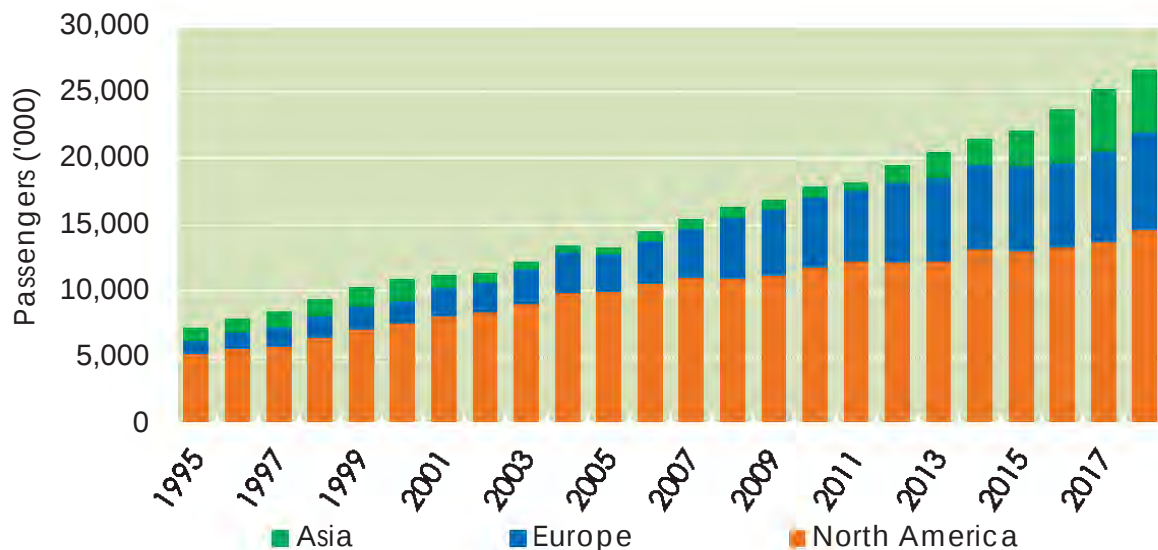
Thus, the composite target in 2029 is 1,566,954-cruise visitors on 646 cruise calls with a per call passenger capacity of 2,427.

Global overview

While small in terms of overall world tourism, the cruise industry has been one of the most successful hospitality sectors over the past three decades. Figure 15 shows the growth of the cruise tourism industry since 1995 by the major consumer regions of the world.

Figure 15: Cruise passengers, 1995 – 2018

Source: *Cruise Industry News Annual*



The industry has seen steady growth, year after year, irrespective of recession, political turmoil or other factors that have impacted the visitor and travel industry.

As shown, the North American market continues to be the main consumer generating market. However, there has been significant growth in the European market over the past ten years. Asia has maintained a relatively flat growth over the period. However, this past three years has seen a tripling of passenger bed day deployments in the Asia region with the deployment of the *Quantum of the Seas* and pushes by each of the cruise brands to develop the large Chinese consumer market that has an unexhausted growth potential due to its large population base with fast-growing income streams and the desire to travel abroad and within the vast Asian region. It has fallen off slightly due to regional issues, but will be a major growth market into the future.

Europe and North America have very similar population overlays and demographics which allow for an easy growth comparison. In Europe, the lines are focusing their product on each country and population base by creating individual brands such as Pullmantur (owned by RCCL and in the midst of a sell off of the tour and travel agent arms of the company) and Iberocruceros (owned by Carnival Corp) targeting the Spanish market, AIDA (owned by Carnival Corp) and TUI Cruises (partly owned by RCI) targeting the German market, MSC (privately owned) and Costa Cruises (owned by Carnival Corp) targeting the Italian market; but increasing their presence in other markets as well, P&O

(owned by Carnival) and Thompson Cruises targeting the UK market, Croisiers de France (owned by RCCL) targeting the French market and many other smaller lines specifically targeting national markets to further drive growth in the larger regional market.

Cruise industry growth factors

The major underlying growth factors and trends for the cruise industry are outlined below:

- Since its inception, the cruise industry is constrained by ships (supply) and not by the availability of passengers (demand). As a result, ships of all the major lines sail at nearly 100% capacity year-round. As ships are introduced and capacity increased, the lines have been able to increase its market penetration within the consumer base. Lines also use supply to increase yields by constraining supply. However, there is still a large market opportunity as the industry is still very small in comparison to worldwide tourism with a penetration rate of less than 4%, thus continued expansion is likely.
- Repeat clientele are a major asset of the industry. This high level of repeat business requires that the industry provide different products and destinations to keep interest and continue to attract the same client.
- Cruise lines are expanding in several cruise regions or providing new destination products to provide new varieties of merchandising to their repeat clientele and to establish new market bases.
- There is a saturation of traditional ports and regions which has motivated the industry to branch out into new regions and add new ports. However, there are still limited opportunities in existing markets due to the desire of passengers to visit marquee destinations and the cruise lines to provide those destinations in demand to promote cruise sales and create additional shore side products that provide revenue opportunities to the brands.
- In its early years, the industry was predominately marketed to US consumers. Today, non-US passengers are taking more cruises, with the European market (particularly the UK and German) growing rapidly, as well as the Asian sector.
- The cruise industry has consolidated into a handful of profitable operators which necessitate ports to market to a limited number of companies / decision-makers.
- Cruise lines try to limit their commitments to regions or ports in order to preserve their ability to move ships and modify their operations quickly to reflect changes to demand, economic and global geo-political issues in order to absorb cost or increase profitability.
- The industry has done an excellent job of shifting land based vacationers to cruise guests due to the all-inclusive value perception of the cruise product.
- Two major factors that weigh heavily in the determination of ship deployment are:

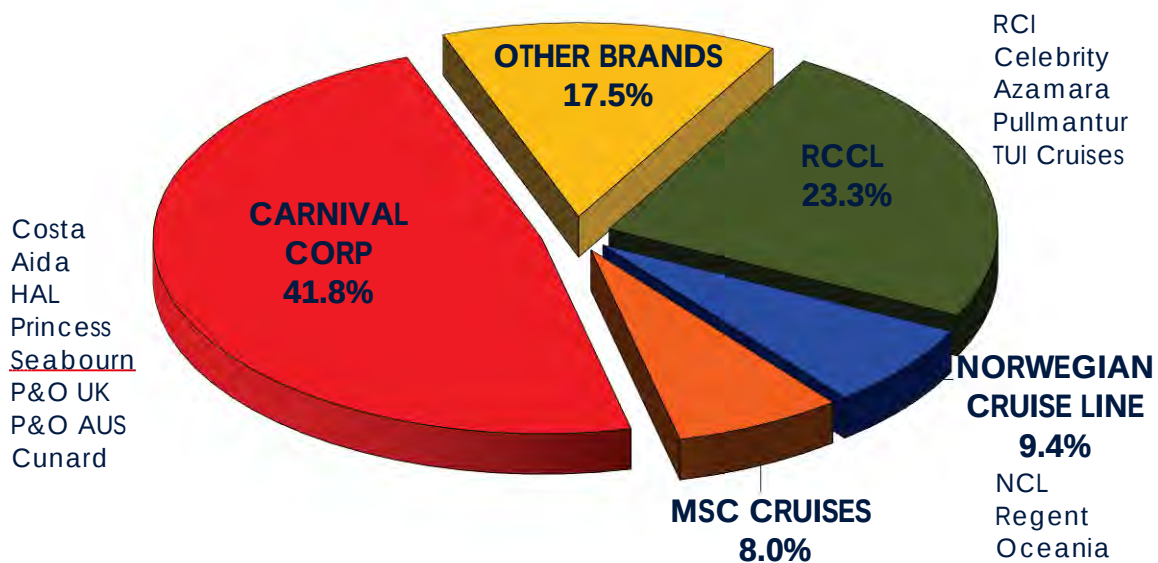
- o Passenger satisfaction/demand – cruise lines use survey tools, travel agents and passenger feedback as a key indicator for future deployments; and,
 - o Yields – lines place vessels into itinerary patterns with high demand, high revenues and lower operating costs to maximize passenger spending per day (meaning onboard and shore side spending such as shopping, bar, casino, spa and shore excursion revenues).
- Currency exchange rates play a major role in shipbuilding and deployment patterns that define the timing and deployment patterns of cruise brands.
 - Weather patterns, consumer demand and cruise line operations have influenced deployments in many regions extending seasonality into non-traditional time slots - such as Northern Europe. At the same time, these same issues have limited the ability of destinations such as Alaska and Canada & New England to extend their seasonality.
 - The industry has shown itself to be generally recession resistant by controlling and reducing costs, shifting capacity between longer and shorter cruises, developing vessels with more outside cabins, on-board amenities, re-fitting vessels for year-round cruising in specific regions and allowing for discounting on cabin fares to pick up the potential for on-board revenue spending in order to stay profitable.

Cruise brands

There are four major cruise corporations that control the majority of the worldwide cruise capacity (82.5%). Carnival Corporation is the largest with 9 cruise brands (105 ships) ranging from luxury (Cunard and Seabourn) to contemporary mass market (Carnival Cruise Lines). See Figure 16.

Figure 16: Major worldwide cruise corporations' passenger capacity, 2018

Source: B&A



RCCL is half the size of Carnival Corporation in terms of passenger capacity with 5 brands (23.3%) with 52 ships, followed by the fleets of Norwegian Cruise Line (26 ships) and MSC Cruises (privately held company with 15 ships). Genting Hong Kong has 4.6% of the world's capacity with 3 brands and 9 ships.

Cruise vessel trends and new-build program

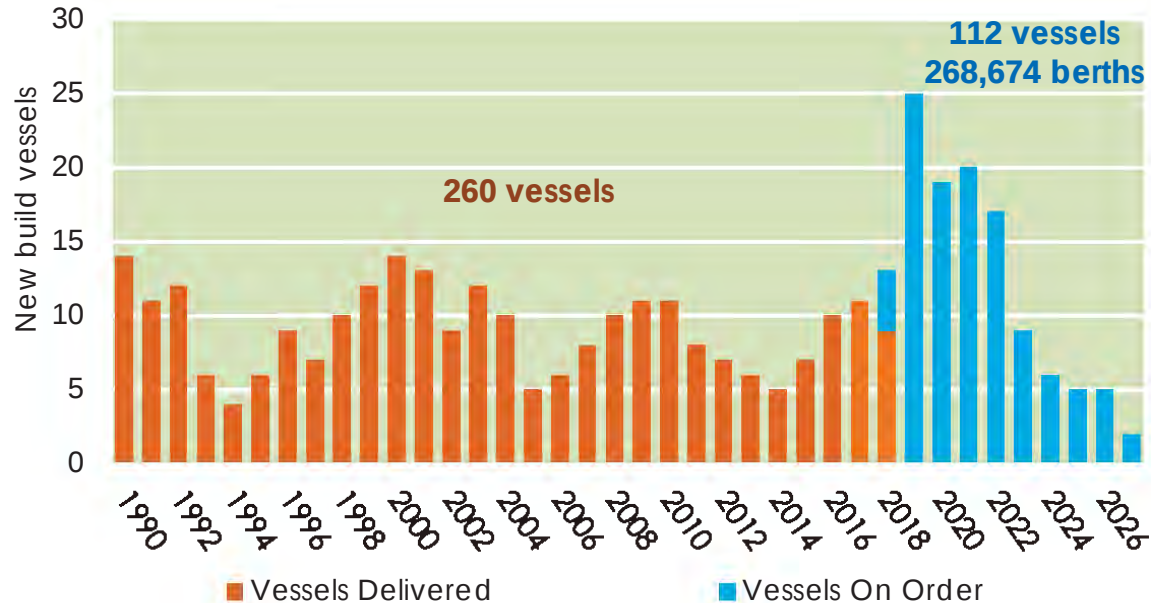
To be able to grow, cruise lines have been highly successful in introducing new vessel inventory and developing on-board products that generate sustained interest in cruising. Cruise brands continually work to improve the quality and quantity of on-board experiences with diverse food and beverage venues, entertainment activities, meeting, conference facilities and recreation areas.

Among the largest of their efforts is the creation of larger and more lavish vessels furnished with veranda-style outside cabins, grand central atriums, health spas and other amenities found in the best land-based resorts. This trend became the norm in the mid-1990s and has continued as cruise brands introduce innovative products and services on the newest vessels to further differentiate themselves from the competition and generate renewed public interest in cruising. Consumers meet each new vessel launch with enthusiasm, and ultimately, increased passenger bookings.

As of October 31 there are 112 new cruise vessels on order with a total berth capacity of 268,674 scheduled for delivery over the next 9 years (2018 through 2027). For comparison purposes, in spring 2006, the forward cruise vessel order book contained 29 vessels with a berth capacity of approximately 85,000. Figure 17 shows the cruise vessel new build deliveries from 1990 through 2027. This supply propels the industry forward. The deliveries for 2022 and beyond are still preliminary as negotiations are underway for new-builds for those years but have not yet been confirmed.

Figure 17: Cruise vessel deliveries and on order, 1990 – 2027

Source: B&A and Seatrade Cruise Community

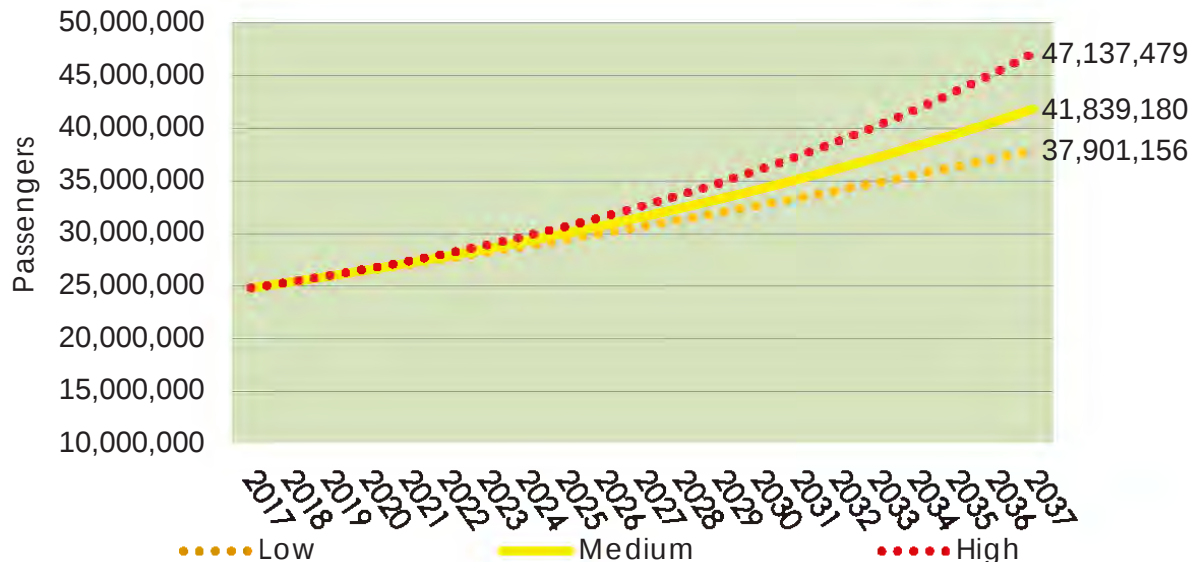


The potential development of shipyards with the technical capabilities to build and deliver cruise vessels in China and Asia would provide for added capacities in a relatively short timeframe once the industry accepts the standards of the vessels. The cyclical nature of shipbuilding is driven more by economics, shipyard competition, cost of capital and availability of government support or subsidies than by consumer demand. Most of these factors are external to passenger issues.

Figure 18 shows the potential worldwide passenger growth through 2037 estimated to be between 37.9 and 47.1-million passengers.

Figure 18: Conventional cruise worldwide growth projections, 2017 – 2037

Source: B&A



This forecast is based upon the additional market supply (cruise vessels) placed into the consumer market and a minimal withdrawal factor¹ of 5% to 10% for older ships being taken out of the conventional cruise fleet on an annual basis over the 20-year period. A cruise vessel has a 20- to 25-year life before being removed from the major fleets. In addition, the new vessels being placed into the fleet are larger overall thus creating more overall capacity in the marketplace. The low, medium and high are the differences in the number of cruise vessels placed into the fleet and withdrawn on an annual basis.

North American Market

The primary worldwide market component is that of the North American consumer market. This is the base of the cruise industry accounting for more than 57% of the cruise tourism market. The North American consumer is the primary target market overall and provides a majority of the overall capacity for most of the primary brands deployed to the Alaska region.

However, this is slowly changing as brands diversify in the worldwide markets, becoming more international or catering to specific national demographics (TUI Cruises / AIDA Cruises catering to the German market). They now deploy ships directly into regions outside of Europe to capture their primary consumer target markets. Figure 19 provides the North American market growth. Growth of this core market has shown a marked increase in the past 5-years moving at 6.4% CAGR.

Figure 19: North American cruise passengers, 2000 – 2017

Source: B&A and Cruise Industry News Annual

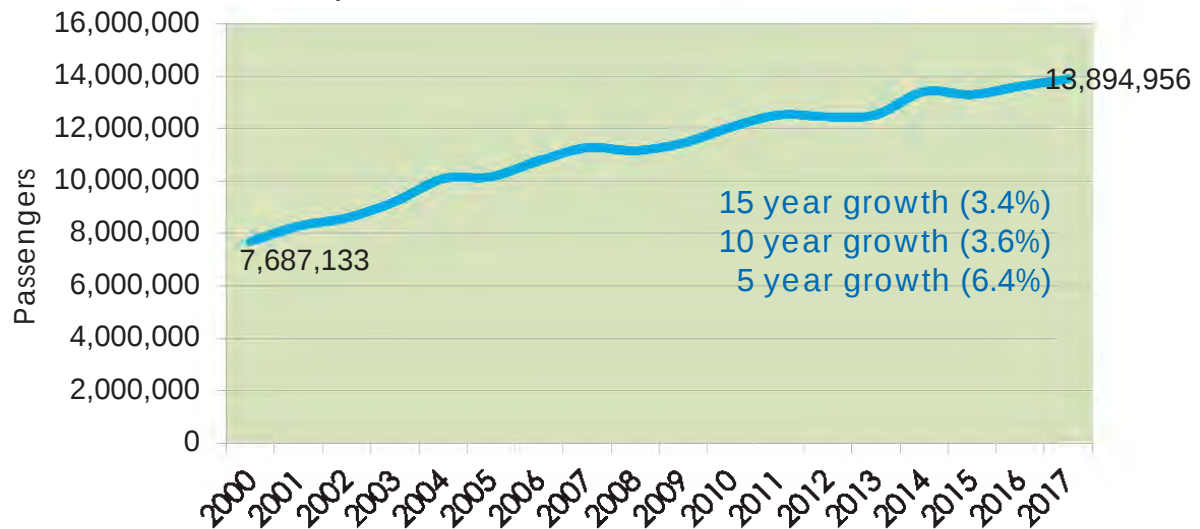


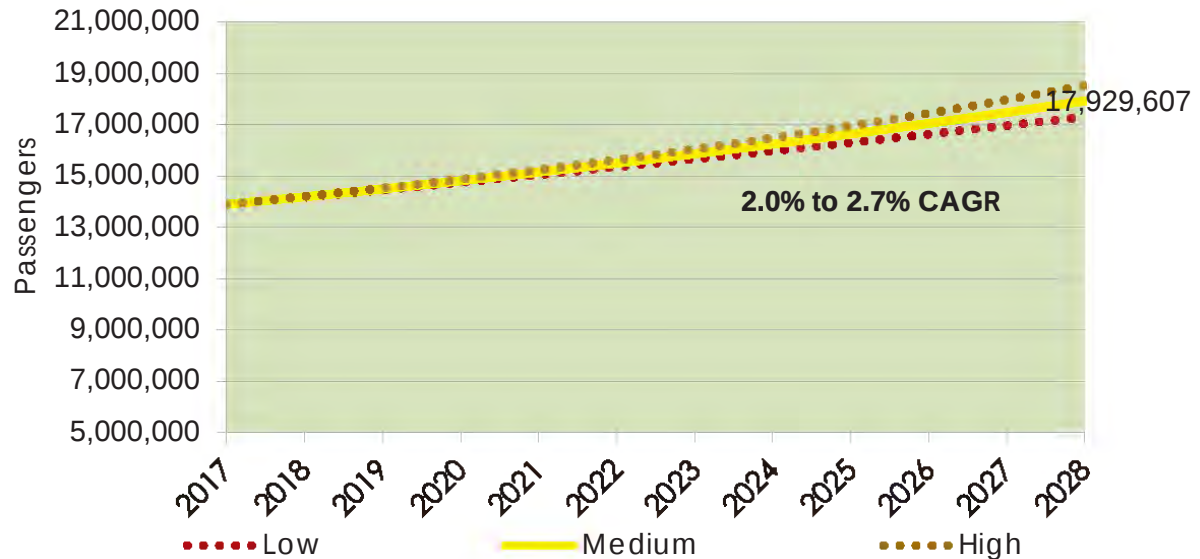
Figure 20 illustrates the growth of the North American market over the next ten years based upon the capture rate of the world market, delivery of new builds into the market and the deployment into key regions within the sphere of the North American consumer market. As shown, growth will move from 2.0 to 2.7% CAGR over the period producing a

¹ This is the amount of cruise vessels that leave the worldwide fleet each year due to being scrapped, sunk, sold or used in the secondary markets.

mid-range of ~18-million cruise passengers. This is slightly more than 500,000 per annum added to the market.

Figure 20: North American cruise passenger projections, 2017 – 2028

Source: B&A



Opportunities and Conclusions

Based upon the assessment of the industry moving forward there will be higher growth rates of the overall market due to the number of new builds on order. Big ship introductions are maturing along with a renewed interest in small ship exploration / luxury cruising which provides for a unique opportunity for small destinations. Growth has to occur through additional capacity worldwide and will require massive development, or a redistribution of growth. There will also likely be less seasonality and more weekday homeport operations in places such as Alaska. Homeport and Port-of-call development is critical.

- The world cruise tourism is a supply-led industry that is expanding rapidly, but small in terms of worldwide tourism products. It impacts each continent and is fed by the development of regional itinerary patterns that attract consumer demand, which is the key growth driver.
- Cruise tourism has done well during socio-political conflicts, economic instability and recession amongst others. This is accomplished through the ability of cruise brands to move their vessel assets to locations passengers want to go that are free from conflicts and where the consumer feels secure.
- World growth is propelled by the development of larger cruise vessels with greater passenger capacities providing for better overall economies of scale for the cruise brands. There are still smaller exploration and luxury vessels being built and introduced to the market, but they drive a small part of the overall growth and are targeted toward a particular demographic niche(s).

- The industry is constrained by the ability to build new ships at a faster pace (2 – 3 years on average); the overall number of new build slots (approx. 15) larger vessels per annum; and, regional homeport berth and downstream berth and upland tourism infrastructure to support growth.
- New cooperative agreements and partnerships are allowing for new build options in Asia so more cruise vessels can be delivered each year. This will allow for more growth overall.
- The North American market serves as the primary world market. Growth will continue at a solid rate, but movement of vessel capacity to create new markets will lower overall penetration.