

July 2013

Economic Impacts of the

# Cruise Industry in Alaska 2011

Prepared for  
CLIA Alaska



Prepared by  
**McDowell**  
GROUP

Exhibit C  
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**Economic Impacts of the**

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G R O U P

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Exhibit C  
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# Executive Summary

Cruise Lines International Association (CLIA) Alaska contracted with McDowell Group to measure the economic impacts of Alaska's cruise industry in 2011. This study represents an update to a more extensive study addressing 2007 impacts. Impacts are presented in terms of employment, labor income, and total spending. Both direct and indirect (including induced) impacts are estimated based on cruise industry-related spending in Alaska. This study draws heavily on a study McDowell Group conducted for the Alaska Department of Commerce, Community, and Economic Development: *The Economic Impact of Alaska's Visitor Industry, 2011-12*. Additional sources for this study include the *Alaska Visitor Statistics Program*, Cruise Line Agencies of Alaska, cruise lines, Alaska Department of Labor and Workforce Development, and municipalities.

## Employment and Labor Income

Alaska's cruise industry accounted for an estimated annual average of 13,300 full- and part-time jobs in 2011, including all direct, indirect, and induced impacts. These jobs resulted in total labor income of \$518 million.

Over half (56 percent) of cruise industry-related employment was attributable to the Southeast region, 26 percent to Southcentral, and 18 percent to Interior/Other. Labor income was similarly distributed: 59 percent (\$307 million) in Southeast, 24 percent (\$122 million) in Southcentral, and 17 percent (\$89 million) in Interior/Other.

## Spending

The cruise industry generated \$1.24 billion in spending in 2011, including all direct, indirect, and induced impacts. Southeast again accounted for over half (62 percent) of the statewide total; Southcentral accounted for 22 percent; and Interior/Other accounted for 16 percent.

Spending, labor income, and employment impacts are derived from applying economic multipliers by region and sector to cruise industry-related spending (passenger spending, cruise line spending, cruise line payroll, crew member spending, and spending on air tickets to enter/exit the state).

Chart ES-1. Total Cruise Industry-Related Employment in Alaska, 2011

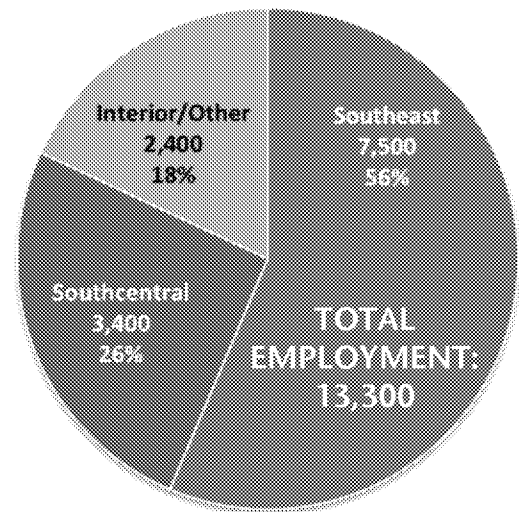
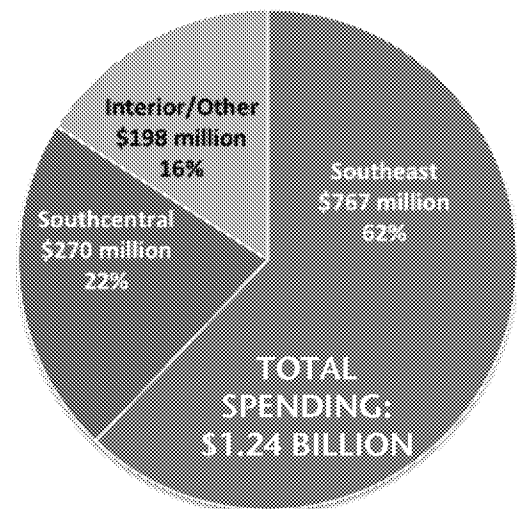
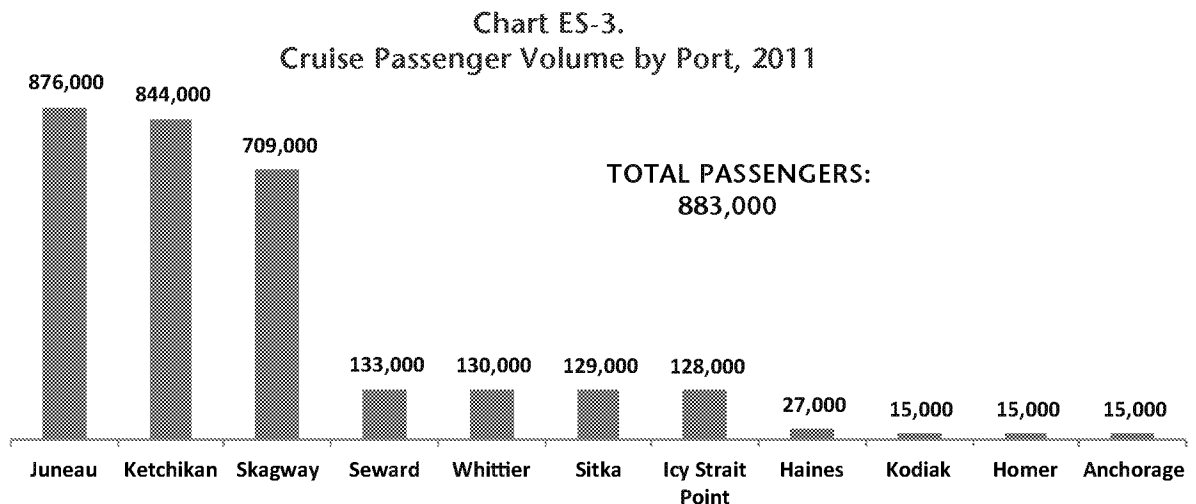


Chart ES-2. Total Cruise Industry-Related Spending in Alaska, 2011



## Cruise Passenger Volume

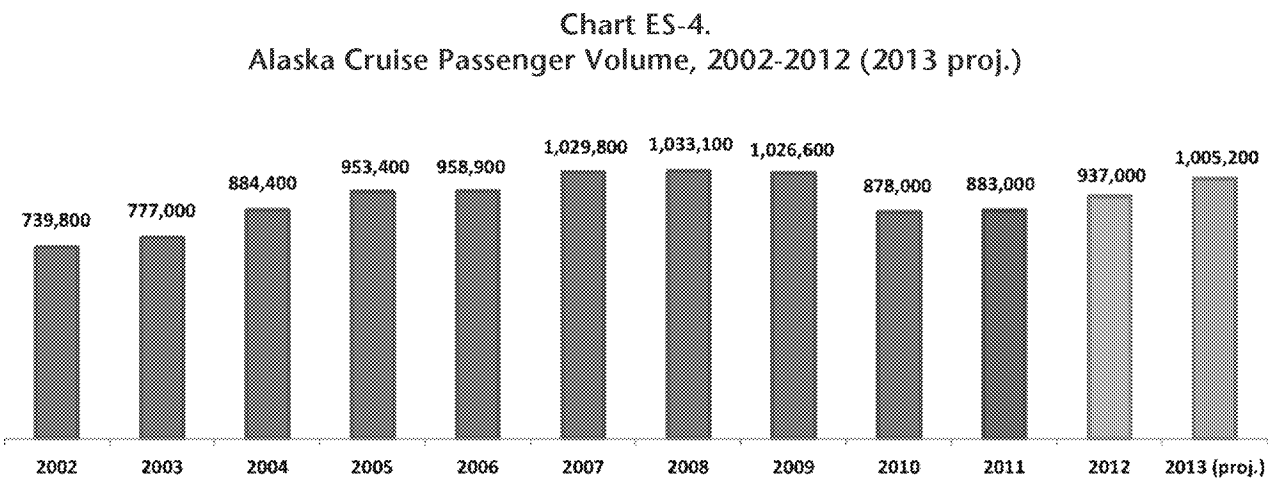
A total of 883,000 people cruised in Alaska in summer 2011. This figure represented 57 percent of Alaska's total summer 2011 visitor volume (1,556,800). Juneau, Ketchikan, and Skagway received the bulk of passengers at 99 percent, 96 percent, and 80 percent of total volume, respectively. Secondary ports, receiving 14 to 15 percent of volume, included Seward, Whittier, Sitka, and Icy Strait Point.



Source: Cruise Line Agencies of Alaska. Note: Haines receives additional volume via fast ferry from Skagway.

Seven out of ten cruise passengers in 2011 were on round-trip itineraries, while 30 percent were on cross-gulf itineraries (sailing to/from Southcentral Alaska ports). Nearly all cross-gulf passengers visit Anchorage, and many choose to travel on to other areas of Alaska, often on cruise/tour packages that commonly include Denali and Fairbanks, among other destinations. This additional travel accounts for spending and employment in the Southcentral and Interior regions.

Cruise passenger volume to Alaska rose steadily in the 1990s and 2000s before peaking in 2008. Volume dropped by 14 percent in 2010, a decline attributed to increased State of Alaska taxes. Volume increased by less than 1 percent in 2011, then rose by 6 percent in 2012. An additional 7 percent increase is projected for 2013.



Source: Cruise Line Agencies of Alaska.

## Revenues to Municipal and State Governments

The cruise industry accounted for \$38.8 million in sales tax revenues, lodging tax revenues, and dockage/moorage fees to Alaska municipalities in 2011. (This figure does not include property tax revenues.) In addition, the cruise industry paid \$42.2 million in fees to the State of Alaska, including the Commercial Passenger Vessel Tax, Gambling Tax, Ocean Ranger Program, and Environmental Compliance Program. This figure includes only direct payments from cruise lines to the State of Alaska. It does not include revenues related to the Alaska Railroad Corporation, vehicle rental taxes, fishing license revenues, or corporate income tax revenues, for example.

Table ES-1.  
Selected Revenues to Municipal and State Governments, 2011

	Estimated Revenues
<b>Municipal Revenues</b>	<b>\$38.8 million</b>
Sales tax revenues	\$15.8 million
Lodging tax revenues	\$7.8 million
Dockage/moorage revenues	\$15.2 million
<b>State of Alaska Revenues</b>	<b>\$42.2 million</b>
Commercial Passenger Vessel Tax	\$32.0 million
Passenger Gambling Tax	\$5.8 million
Ocean Ranger Program	\$3.6 million
Environmental Compliance Program	\$0.8 million
<b>Total Selected Revenues</b>	<b>\$81.0 million</b>

Notes: Cruise industry-related property tax payments represent an additional source of revenue to municipalities, and were most recently estimated at \$3.4 million in 2007.

The State of Alaska collected \$3.5 million in corporate income taxes in the tourism category in 2011. While the sources of this revenue are confidential, it is assumed that most (if not all) is attributable to cruise lines.

## Estimated Impacts in 2013

With passenger volume in 2013 more than 100,000 above the 2011 level, the economic impact of the cruise industry has clearly grown over the past two years. Total passenger spending in 2013 will likely be \$60 million more than in 2011. While it is beyond the scope of this study to precisely measure the employment and income impacts of the cruise industry in Alaska in 2013, it is likely that total cruise industry-related employment will be over 14,000 jobs with labor income of around \$550 million.

# Introduction and Methodology

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## Introduction

Cruise Lines International Association (CLIA) Alaska contracted with McDowell Group to measure the regional and statewide economic impact of Alaska's cruise ship industry for 2011, including direct, indirect and induced effects. In addition to estimating passenger-related spending, employment, and payroll, the report shows cruise line payments to state and municipal governments. The report draws extensively from *The Economic Impact of Alaska's Visitor Industry, 2011-12*, conducted by McDowell Group for the Alaska Department of Commerce, Community, and Economic Development. This study represents an update to a more extensive study of 2007 impacts, conducted by McDowell Group for the Alaska Cruise Association.

## Methodology

### Passenger Volume and Spending

Cruise passenger volume is based on two sources. Cruise Line Agencies of Alaska provided passenger counts for port communities. Visitation by cruise passengers elsewhere in the state is based on data from the *Alaska Visitor Statistics Program (AVSP)*, conducted by McDowell Group for the Alaska Department of Commerce, Community, and Economic Development (DCCED). In summer 2011, a total of 2,130 cruise passengers were surveyed on cruise ship docks and in airports prior to exiting the state. The survey collected information on where passengers traveled while in Alaska.

Passenger spending estimates were likewise based on AVSP survey data. The survey collected information on the total amount spent in Alaska as well as the amount spent in each community visited, by spending category (lodging, tours/activities/entertainment, gifts/souvenirs/clothing, food/beverage, transportation/rental cars/fuel, and other). Spending figures exclude cruise packages and transportation used to enter and exit the state.

An adjustment was made to the spending figures from the survey for the purposes of economic impact analysis. Tour commissions were extracted from passenger spending estimates because they accrue directly to cruise lines at the time of the sale, and are accounted for under cruise line spending, below.

Final spending estimates were derived from applying average spending by category, and by region, to passenger volume estimates.

### Additional Cruise Industry Spending

Additional cruise industry spending includes cruise line spending, crew member spending, and cruise passenger spending on airplane tickets to enter and exit Alaska.

## **CRUISE LINE SPENDING**

Cruise line spending was based on 2011 purchasing data provided by four major cruise lines: Princess Cruises, Holland America Line, Royal Caribbean International (which operates both Royal Caribbean Cruises and Celebrity Cruises) and Carnival Cruise Lines. Together, these lines represent 80 percent of 2011 cruise passenger traffic. Data was not available from Norwegian Cruise Line, Disney Cruise Line, or other (smaller) lines. Spending by other lines in Alaska was estimated using Carnival's spending data as a proxy, as the other lines most closely resemble Carnival in terms of their Alaska operations. (That is, the other lines do not operate land-based tours like Princess, Holland America, and Royal Caribbean.)

Data referring to nearly 2,000 vendors (excursions, products, and services) was reviewed and categorized by economic sector and region. All payments from cruise lines to excursion providers were excluded from the final spending estimates, as this spending is already accounted for in visitor spending data. For example, payments to Mt. Roberts Tramway were excluded, because passengers reported that spending in the AVSP survey; therefore it is included in the Passenger Spending category.

## **CREW MEMBER SPENDING**

Crew member spending for 2011 was based on previous surveys of crew members conducted by McDowell Group, modified to account for changes in crew member volume by port and inflation. Spending estimates were corroborated by crew spending estimates provided by cruise lines.

## **SPENDING ON AIR TICKETS**

Since spending on air tickets to enter and exit Alaska is excluded from AVSP visitor spending estimates, these figures are estimated and added to total cruise industry spending figures. Spending on air tickets was based on average Seattle-Anchorage and Anchorage-Fairbanks airfares, cross-gulf passenger volumes, cruise tour volumes, and an assumption that roughly half of spending on air tickets to enter and exit Alaska actually stays in Alaska.

## **Economic Impact Analysis**

McDowell Group maintains an Excel-based visitor industry economic impact model for assessing the effects of cruise industry-related spending in Alaska. Estimates of direct cruise industry employment and payroll are derived from industry spending estimates, and verified using employment and payroll data from the Alaska Department of Labor and Workforce Development and U.S. Bureau of Economic Analysis. The model incorporates modified IMPLAN multipliers to estimate indirect and induced impacts. IMPLAN is a predictive input-output model of local and state economies, and is widely used to measure the economic impact of industries and industrial/commercial development. Indirect effects include those jobs and income created as a result of cruise industry businesses purchasing goods and services in support of their business operations. Induced effects include jobs and income created as a result of employees of the cruise industry spending their payroll dollars in support of their households. Together, indirect and induced impacts are often termed "multiplier effects."



## **Cruise Industry Revenues to Municipalities and the State of Alaska**

The report includes estimates of tax revenues to municipalities and state government from passengers, to the extent possible. Tax revenues were estimated based on those determined in the 2008 study. The 2008 figures were adjusted based on passenger volume changes and inflation rates. Cruise ship dockage/moorage revenues were collected from municipalities. Cruise line payments to the State of Alaska were reported by the Department of Revenue.

# Cruise Industry Overview

## Cruise Lines Operating in Alaska

A total of 16 cruise lines operated over 30 ships in Alaska waters in summer 2011. Seven major lines represented the vast majority of passengers: Princess, Holland America, Celebrity, Norwegian, Royal Caribbean, Carnival, and Disney. All of these cruise lines are members of CLIA Alaska. Several lines are affiliated with one another: Princess, Holland America, and Carnival are all owned by the Carnival Corporation, while Celebrity and Royal Caribbean are owned by Royal Caribbean International.

Princess added one ship and Holland America increased capacity in the 2012 season. Additional information on cruise passenger volume is provided in the following chapter.

Table 1. Cruise Lines Operating in Alaska, 2011

	# of Ships	Passenger Volume
<b>Large Cruise Ship Lines</b>		
Princess Cruises*	6	259,200
Holland America Line*	7	212,200
Celebrity Cruises*	3	110,700
Norwegian Cruise Line*	2	108,600
Royal Caribbean Cruises*	2	68,600
Carnival Cruise Lines*	1	48,300
Disney Cruise Line*	1	44,100
Crystal Cruises*	1	6,300
P&O Cruises	1	1,900
Regent Seven Seas Cruises*	1	7,900
Oceania*	1	6,500
<b>Small Cruise Ship Lines</b>		
Silver Sea Cruises*	1	4,900
Lindblad Expeditions	2	2,200
Hapag Lloyd	1	300
InnerSea Discoveries	2	n/a
Alaska Dream Cruises	2	n/a

\* Members of CLIA Alaska.

Notes: Small ships are those with a passenger capacity of 400 or fewer. InnerSea Discoveries and Alaska Dream Cruises began operations mid-way through the 2011 season. Cruise Line Agencies of Alaska does not collect data on these lines.

## Alaska Cruise Itineraries and Tour Packages

Cruise routes and itineraries vary among and within cruise lines, although there are general similarities. Cruises tend to supplement port calls with visits to geographical points of interest such as Tracy Arm and Glacier Bay. Round-trip itineraries usually use Vancouver or Seattle as the embarkation/disembarkation port.

“Cross-gulf” itineraries use these same ports as a base, but also sail across the Gulf of Alaska, traveling between Vancouver/Seattle and Seward or Whittier. Passengers on cross-gulf itineraries cruise one-way and fly one-way. Alaska cruises generally last seven days, although some variations exist in cruise length.

Passengers on cross-gulf itineraries can choose from an array of land tour itineraries that last anywhere from three to ten days. Cruisetours spread out passengers, who embark and disembark their ships in large volumes, to different properties and locations – airplanes, hotels, buses, and railcars have much lower capacities than cruise ships. As a result, there are many variations in tour length, accommodations, and transportation used to get from place to place.

Land tours usually consist of a rail segment and overnights in Fairbanks, Denali, and Anchorage. Other cruisetour destinations include Girdwood, the Kenai Peninsula, Talkeetna, Glennallen, and the Yukon. Cruise passengers can also choose optional add-on trips to such destinations as Alyeska, the Brooks Range, and the Arctic Circle.

## **Cruise Industry Investments in Alaska**

The cruise industry has invested in a significant amount of property and facilities throughout Alaska. These include hotels/lodges, rail cars, motorcoaches, offices, and maintenance shops. Most assets are owned by the lines with cruisetour operations in Alaska: Princess, Holland America, Royal Caribbean International (used by passengers of both Celebrity and Royal Caribbean). Princess and Holland America merged their land tour operations several years ago.

Hotels represent the cruise industry’s most substantial assets in the state. Some cruise line holdings serve other markets besides cruise passengers, such as the Westmark Anchorage hotel; others, like Princess’ hotels in Denali, serve almost exclusively cruise passengers. Two cruise lines own hotels in Alaska: Princess and Holland America. Princess owns properties in Fairbanks, Denali, Talkeetna, Cooper Landing, and Copper Center. Holland America owns properties in Anchorage, Fairbanks, Tok, Skagway, and Juneau.

# Cruise Industry Spending

## Passenger Spending

Cruise visitors to Alaska spent an estimated \$493 million in Alaska in summer 2011. This figure includes in-state spending only, excluding the cost of the cruise or cruise/tour package.

While passenger spending on cruises and cruise/tour packages is excluded from this figure, cruise line spending in Alaska is accounted for in the economic impact analysis, and is addressed further, below. This spending includes payments to hotels, motorcoach companies, the Alaska Railroad Corporation, and other components of land tours that are included in the cruise package price.

For the purposes of this study, tour commissions were extracted from passenger spending data because they accrue directly to cruise lines. Cruise lines, in turn, spend some of these earnings in Alaska; these are accounted for under cruise line spending.

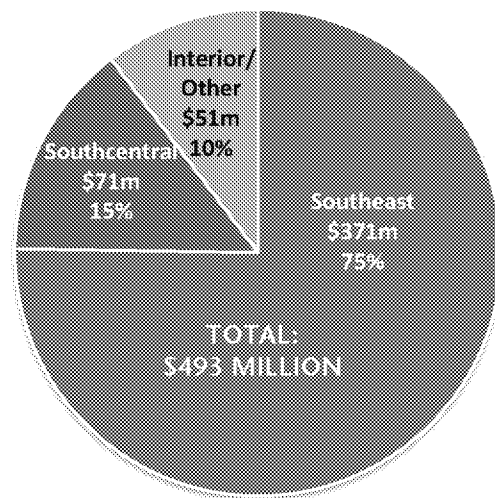
The previous study of cruise industry impacts estimated passenger spending of \$506 million in summer 2007. (This figure referred only to CLIA Alaska member lines, which represented 1,003,500 passengers out of a total 1,029,800.) The decrease from \$506 million to \$493 million is mostly attributable to the decrease in cruise passenger volume: from 1,003,500 CLIA Alaska passengers (or 1,029,800 total) to 883,000 total passengers.

## Additional Cruise Industry Spending

### Cruise Line Spending and Payroll

In 2011 cruise lines and their subsidiaries spent an estimated \$208 million on goods and services in Alaska, including purchases with Alaska businesses, as well as tax and fees paid to state and local governments. This estimate is derived from detailed 2011 purchasing information provided by four major cruise lines: Princess Cruises, Holland America Line, Royal Caribbean International (which operates both Royal Caribbean Cruises and Celebrity Cruises) and Carnival Cruise Lines. Together, these lines represent 80 percent of 2011 cruise passenger traffic. Spending by the other cruise lines was assumed to resemble those of Carnival on a per-passenger basis. While Princess Cruises, Holland America Line, and Royal Caribbean International all operated land tours and therefore show much higher spending on a per-passenger basis, Carnival and all other cruise lines operated cruises exclusively.

Chart 4. Total Passenger Spending in Alaska 2011, By Region



Cruise line spending data was adjusted to exclude payments to tour vendors, which are already accounted for in the visitor spending. (Many cruise passengers purchase shore excursions from their cruise line, then the cruise line pays the operator on behalf of the passenger.)

In addition to making purchases in Alaska, cruise lines directly employed approximately 1,900 workers in Alaska on an annual average basis, and 4,000 during the peak month of July. Total payroll for these employees is estimated at \$18 million. These figures are based on employment and payroll data provided by the three lines that operate land tours and/or have hotel properties in Alaska: Princess Cruises, Holland America Line, and Royal Caribbean International. In addition, other cruise lines employ a small number of Alaska-based employees on a seasonal basis.

**Table 2. Cruise Line Purchases, Payroll, and Employment in Alaska, 2011**

	Spending and Employment
Cruise line purchases/payments	\$208 million
Cruise line payroll	\$59 million
<b>Total cruise line spending</b>	<b>\$267 million</b>
Cruise line employment (annual)	1,900
Cruise line employment (peak)	4,000

The previous study of cruise line spending (measuring 2007 impacts) estimated total purchases/payments at \$256 million, and payroll at \$54 million. The decrease from \$256 million to \$208 million is attributable to two major factors: the State of Alaska lowered its Commercial Passenger Vessel Tax, and there were fewer cruise passengers.

### **Crew Spending**

Approximately 22,500 crew members visited Alaska in 2011, spending an estimated \$15.7 million in the state. Each crew member generally sails on 10 to 20 individual voyages, visiting multiple communities on each voyage. Crew members make a wide variety of purchases while in port: they visit restaurants and bars; they purchase communication-related items such as phone cards, Internet, and postage; and they often visit retail outlets such as Fred Meyers, Costco, and Wal-Mart. Estimated spending by crew members in 2011 was based on previous surveys of crew members conducted by McDowell Group, modified to account for changes in crew member volume by port and inflation. Spending estimates were consistent with figures provided by cruise lines.

### **Cruise Passenger Spending on Air Tickets**

Spending by cruise passengers on plane tickets to enter and exit Alaska is estimated at \$58 million for 2011. This figure refers not to total ticket purchases, but to the proportion of ticket purchases assumed to impact the Alaska economy.

The AVSP survey does not collect spending on airplane tickets to enter and exit the state. Because some of that spending accrues to Alaska, a rough estimate is necessary to complete the picture of cruise passenger