

Nov. 25, 2019

RE: Impacts of Holland America Cruise Line cancellations in 2020

Introduction:

Holland America Cruise Line announced in September 2019 that it was cancelling most of its previously scheduled port calls to Haines in 2020. The announced cancellations mean a loss of about 42,967 passengers (55 percent drop) in 2020 over projections and down 44 percent from 2019. This analysis looks at the estimated potential impacts to visitor spending, sales tax revenue and commercial passenger vessel (CPV) excise tax income.

Findings:

This analysis looks at three economic impacts of the Holland America cancellations:

- the difference in projected visitor spending and sales tax revenue for 2020 before and after the Holland America cancellations were announced;
- the difference compared to 2019 estimated visitor spending and sales tax revenue;
- the loss of Cruise Passenger Vessel excise tax revenue.

The findings are given in maximum impacts (if all ships are at full capacity) and with three alternative scenarios of ships at 87, 92 and 97 percent of passenger capacity (a realistic expectation given the last 10 years of data.)

Maximum difference for 2020: The *maximum* estimated difference in **visitor spending** between what was expected for 2020 before Holland America announced its cancellations and after its announcement totals about \$4.8 million. The *maximum* estimated loss of **sales tax revenue** totals \$262,314.

Estimated difference from 2019 totals: The estimated total cruise ship passengers that visited Haines 2019 is 63,400 according to data from Cruise Line Agencies of Alaska (this total includes 60,300 passengers from ships tracked by CLAA and 3,100 passengers from UnCruise and American Cruise Line.) This equates to an estimated difference in **visitor spending** between 2020 estimates after Holland America's cancellations compared to 2019 of about \$3.1 million and a loss of **sales tax revenue** of about \$171,215 (based on full capacity for 2020.)

Commercial Vessel Passenger excise tax: The estimated loss of **CPV tax revenue** to the borough for the 2020 season compared to 2019 estimates totals \$171,215 (based on full capacity for 2020.)

Background:

Cruise passenger traffic to Southeast Alaska has seen significant increases in recent years, including direct cruise passenger traffic to Haines. Projections of the number of cruise ship passengers that will visit each Southeast community is usually released about a year before. The estimated number of passengers that *was* projected to visit Haines in 2020 was 78,322, an increase of about 15 percent from 2019.

On Sept. 13, 2019, Ralph Samuels, VP for Community Relations, Holland America/Princess Lines, informed the Haines Borough that most of Holland America's ships scheduled to port in Haines in 2020 would instead port in Skagway. Samuels stated the company's decision was a "domino effect" of Norwegian Cruise Lines pulling some of its dockings from Skagway to port at its new dock in Icy Straits. This opened docking space in Skagway on Wednesdays and Samuels stated Holland America would dock there instead of Haines for most of its ships. He stated the company would continue to sell Haines' shore excursions from Skagway.

With Holland America's slashed dockings, Haines is now projected to have, at most, 35,355 passengers (based on full capacity.) That is a loss of 42,967 passengers and the lowest amount of cruise ship passengers to Haines since 2011.

Analysis:

This analysis looks at the potential loss of visitor spending and sales tax revenue expected from the loss of Holland America cruise ship passengers to Haines.

The analysis used the following data and assumptions:

- Projected number of passengers for 2020 are based on full capacity of the ships but do not include crew members. Previous years actual numbers of passengers do not include crew members.
- As mentioned above, projections for upcoming years are based on full capacity of ships. Based on a decade of data, the actual number of passengers that dock in Haines normally remains above 90 percent of full capacity. Given that, this analysis estimates the difference in visitor spending, sales tax revenue and CPV excise tax revenue based on 87, 92 and 97 percent of capacity of ships scheduled to dock in Haines in 2020, before and after the Holland America cancellations were announced.
- A spending average of \$111 by nonresident visitors (includes all goods and services.) This number is from the most recent Alaska Visitor Statistics Program (AVSP) from summer 2016 conducted by McDowell Group for the Alaska Travel Industry Association. This spending estimate was taken from a sample size of 332 out-of-state visitors departing Haines between May and September 2016, 69 percent of who were cruise ship passengers. The maximum margin of error is plus/minus 5.2 percent.
- Haines Borough sales tax is 5.5 percent inside the townsite, where most goods, services and tours are purchased by all visitors.

- This analysis does not consider the addition of any new ships that may commit to docking in Haines before the 2020 season begins or the possibility of more cruise passengers visiting Haines via the Fast Ferry from Skagway.
- CPV actual receipts and projections are based on data from the State of Alaska Department of Revenue and Haines Borough.

Projected spending totals before Holland American’s Sept. 13 announcement:

Prior to Holland America’s Sept. 13 announcement that most of its ships will not dock in Haines next summer, a total of **78,322** cruise ship passengers were possible at full capacity of all ships scheduled to dock in Haines in 2020, for a maximum possible projected total spending of about **\$8.7 million** and about **\$478,000** in sales tax revenue.

$$\begin{array}{rcl}
 \text{\$111} & \times & \text{78,322} = \text{\$8,693,742} \\
 \text{Average} & & \text{Est. projected} \\
 \text{spending by a} & & \text{maximum number of} \\
 \text{visitor to Haines} & & \text{cruise ship passengers} \\
 & & \text{Est. 2020 maximum total spending} \\
 & & \text{possible by cruise ship passengers} \\
 & & \text{in Haines before HA cancellations}
 \end{array}$$

$$\begin{array}{rcl}
 \text{\$8,693,742} & \times & \text{0.055} = \text{\$478,156} \\
 \text{Est. max. total spending} & & \text{Haines Borough} \\
 \text{by cruise ship} & & \text{townsite sales} \\
 \text{passengers for 2020} & & \text{tax rate (5.5\%)} \\
 & & \text{Est. 2020 max. total sales tax revenue} \\
 & & \text{on cruise ship passenger spending} \\
 & & \text{before HA cancellations}
 \end{array}$$

Estimated total visitor spending and sales tax revenue in 2020 before HA cancelations as based on varying levels of ship capacity: Based on a decade of data, the actual number of passengers that dock in Haines averages about 88 percent of full capacity. The scenarios below calculated the impacts based on 87, 92, 97 percent of maximum ship capacity.

At 87 percent capacity:

68,140 passengers
 \$7,563,540 in visitor spending
 \$415,995 in sales tax revenue

At 92 percent capacity:

72,056 passengers
 \$7,998,216 in visitor spending
 \$439,902 in sales tax revenue

At 97 percent capacity:

75,972 passengers
 \$8,432,892 in visitor spending
 \$463,809 in sales tax revenue

Projected spending totals and sales tax revenue with revised 2020 cruise ship visitors

With Holland America's pullout, the number of cruisers to Haines in 2020 drops by more than 50 percent with commiserate declines in direct and sales tax revenue to the community. A maximum of **35,355** cruise ship passengers are expected in Haines in 2020, for a projected maximum total spending of about **\$3.9 million** and about **\$216,000** in sales tax revenue.

$$\begin{array}{rcl} \$111 & \times & 35,355 \\ \text{Average} & & \text{Est. projected maximum} \\ \text{spending by a} & & \text{number of cruise ship} \\ \text{visitor to Haines} & & \text{passengers} \end{array} = \begin{array}{r} \$3,924,405 \\ \text{Est. 2020 maximum total spending} \\ \text{possible by cruise ship passengers in} \\ \text{Haines after HA cancellations} \end{array}$$

$$\begin{array}{rcl} \$3,924,405 & \times & 0.055 \\ \text{Est. max. total spending} & & \text{Haines Borough} \\ \text{by cruise ship} & & \text{townsite sales} \\ \text{passengers for 2020} & & \text{tax rate (5.5\%)} \end{array} = \begin{array}{r} \$215,842 \\ \text{Est. 2020 max. total sales tax} \\ \text{revenue on cruise ship passenger} \\ \text{spending after HA cancellations} \end{array}$$

Estimated total visitor spending and sales tax revenue in 2020 after HA cancelations as

based on varying levels of ship capacity: Based on a decade of data, the actual number of passengers that dock in Haines averages about 88 percent of full capacity. The scenarios below calculated the impacts based on 87, 92 and 97 percent of maximum ship capacity.

At 87 percent capacity:

30,759 passengers
\$3,414,249 in visitor spending
\$187,784 in sales tax revenue

At 92 percent capacity:

32,526 passengers
\$3,610,386 in visitor spending
\$198,571 in sales tax revenue

At 97 percent capacity:

34,294 passengers
\$3,806,634 in visitor spending
\$209,365 in sales tax revenue

Projected impacts to CPV excise tax revenue

The Haines Borough receives CPV excise tax revenue (\$5 per passenger) each year based on the number of eligible cruise ship that dock in Haines. The CPV excise tax is imposed on passengers traveling on commercial passenger vessels providing overnight accommodations that anchor on the state's marine waters. It's designed to be appropriated to benefit cruise ships and their passengers by enhancing service delivery in port communities. Vessels collect the tax from each passenger if:

- The ship's voyage last more than 72 hours on the state's marine waters
- The ship has 250 or more passengers.

The tax is shared between the first seven ports of call on a ship's itinerary.

CPV revenue traditionally funds portions of the public works, public facilities, parks, ports and tourism promotion/economic development funds in the Haines Borough budget. The borough is planning to use CPV funds in coming years to expand the Piedad water source and to go toward designing a new lightering float at the Port Chilkoot Dock.

Based on the revised 2020 cruise ship calendar, six ships will qualify to pay CPV tax to Haines. Those ships combined have a total capacity of 31,692 passengers with their scheduled stops. If every scheduled ship is at capacity, the borough would receive \$158,460 in CPV tax revenue. Over the last 10 years, Haines normally remains above 90 percent of full capacity of total possible passengers on vessels that are required to pay CPV tax. So, it's reasonable to estimate Haines may receive 92 percent of the total passengers possible, or about 29,157, and an estimated \$145,785 in CPV tax revenue, the lowest amount of CPV tax revenue the borough has received in the last 4 years.

CPV Revenue Distribution FY2010 – FY2020

Fiscal Year	CPV Revenue to Haines Borough
2010	\$204,635
2011	\$154,270
2012	\$146,680
2013	\$154,080
2014	\$140,635
2015	\$144,020
2016	\$206,430
2017	\$185,095
2018	\$224,270
2019	\$317,000 (estimated – <i>disbursed in January 2020</i>)
2020	\$145,785 (estimated, based on 92 percent capacity of scheduled ships after HA's announced cancellations)