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Governor Mike Dunleavy
STATE OF ALASKA

April 8, 2021

Mr. Jeff Zients
Counselor to the President
The White House
1600 Pennsylvania Avenue NW
Washington, D.C. 20500

Delivered via email: eduardo.cisneros@who.eop.gov

Dear Mr. Zients:

Today, I am reaching out with the simple request that you have the Centers for Disease Control and Prevention (CDC) update its guidance to enable cruise lines and ports to resume operations for the 2021 summer sailing season. Alaska has, and continues to, adhere to the science with respect to managing the challenges posed by COVID-19. We continue to be a national leader in all the important health metrics that measure the effectiveness of responding to the virus. Alaska continues to be one of the highest vaccinated states in the country. To be precise, as of today, 33 percent, one-third of Alaskans, over the age of 16, and two-thirds of Alaskans over the age of 65 have been fully vaccinated. These actions were all undertaken to protect Alaskans, protect the healthcare infrastructure, and move the state into recovery as soon as possible.

Vaccines are effective and readily available. Our communities and people need the economic opportunity. At least ten markets, including countries like Italy, Germany, Greece, Singapore, and the Bahamas have reopened and welcomed the cruise industry back to their waters. It is time for the United States to do the same.

Enclosed is an economic analysis report done by three State of Alaska Departments - Revenue; Commerce, Community and Economic Development; and Labor and Workforce Development. This report examines the impacts to Alaska's economy as a result of the cancelled 2020 cruise ship season and the potential cancellation of the 2021 season.

Alaskans who depend on summer tourism to make a living waited anxiously, with hopes, that the COVID-19 vaccines would allow the return to normal, and for cruise ships to enter our ports again. The CDC's recent decision to extend the 2020 "conditional sail order" effectively

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eliminates any potential for a 2021 cruise ship sailing season, and places the futures of thousands of Alaskan families' businesses in peril.

The negative impact of this decision to our economy and the people of Alaska, specifically Southeast Alaska, is staggering. It is estimated that the cancelled cruise ship season in 2020, in addition to the potential cancellation of the 2021 season, will result in a loss to the State of Alaska's domestic product of over \$3.3 billion.

It is my hope that you, the CDC, and President Biden's COVID-19 Task Force are willing to work with me, and with other governors who are seeking to bring back the cruise ship industry to America this summer. Time is of the essence, and I will devote significant resources of my Administration to assisting you in this effort.

Thank you for your consideration of this request. I look forward to working with you on this critical policy matter.

Sincerely,



Mike Dunleavy
Governor

Enclosure

cc: The Honorable Lisa Murkowski, United States Senate
The Honorable Dan Sullivan, United States Senate
The Honorable Don Young, United States House of Representatives
Kip Knudson, Director of State/Federal Relations, Office of the Governor

IMPACTS TO ALASKA FROM 2020/2021 CRUISE SHIP SEASON CANCELLATION



APRIL 9, 2021

PREPARED BY:

THE DEPARTMENT OF REVENUE

THE DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT

THE DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT



Impacts from Cruise Ship Season Cancellation

Executive Summary

The port communities in Alaska have been severely impacted by the loss of cruise ships in 2020 and 2021 as a result of the pandemic. Further compounding the impact is the recent announcement from the Centers for Disease Control (CDC) stating that the 2020 “conditional sail order” will remain in effect through November 2021 – ensuring that there will be no ships in 2021 as well.¹ The economies of many communities in Southeast Alaska are entirely dependent upon tourism. Skagway, for instance, saw a 48% reduction in their total wage base year over year and several other communities have realized revenue losses that exceed their annual operating budget. Federal stimulus spending has helped, but the impacts of the “no sail” order are catastrophic to the economy of Southeast Alaska. Even with added state and federal support, many of these communities face an uncertain future.

The Federal Maritime Commission’s report on economic impact of cruising in Alaska concludes there exists an outsized economic impact from the cessation of cruise activity.² While the symptoms are the same as in other parts of the United States, the impact is much greater because of Alaska’s distance and economic reliance on the tourism industry.

Alaska has lost revenues, taxes and jobs. Small business revenue statewide is down 12% as compared to pre-COVID and many have shut down.³ The unemployment insurance trust fund has paid out over \$1.0 billion in the last 14 months with monthly claims rising as high as \$182 million – twenty times the amount paid in January preceding the COVID-19 situation.⁴ The balance of the UI trust fund was \$492.9 million in February of 2020 as compared to the latest balance of \$265.8 million.⁵

All of this results in a GDP which bottomed out at \$47.5 billion in Q2 of 2020 – 10.5% less than the prior year.

In summary, Alaska has experienced the following direct cruise and tourism industry losses due to pandemic and now the CDC order:

¹ As Canada also restricts ships in their ports an additional waiver from the Passenger Vessel Services Act (PVSA) would be required. Under the Passenger Vessel Service Act of 1886, foreign-flagged passenger vessels carrying more than 100 people can operate between American ports, but they must include a stop at a foreign destination. For Alaska-bound cruise ships departing from Washington State, this means a stopover in Canada.

² Federal Maritime Commission report COVID-19 Impact on Cruise Industry October 20 2020

³ http://www.akleg.gov/basis/get_documents.asp?session=32&docid=13581

⁴ <https://live.laborstats.alaska.gov/uiprog/index.cfm>

⁵ Source: Department of Labor and Workforce Development as of 3/26/2021

Impacts from Cruise Ship Season Cancellation

Direct Impacts \$millions	Estimated Losses Annually	Two Cruise Season Impact
A. Local Community Revenue Loss	\$98.6	\$197.2
B. State Revenue Loss	\$90.3	\$224.5
C. Wages lost State and Local	\$305.7	\$611.4
D. Lost Revenues For Local Business	\$1,119.0	\$2,238.0
E. Dockage fees lost statewide	\$18.0	\$36.0
F. Reduction in Unemployment Trust Balance (Cruise Related)	\$29.8	Ind.
Total Loss to State of Alaska	\$1,661.4	\$3,336.9

Alaska has experienced significant job losses because of the pandemic and will continue to experience losses because of the CDC ruling on cruise travel. Port and cruise line related communities have seen a collective 22,297 in job losses as compared to the previous year representing over \$305.7 million in wages lost.

Wage and Employment Impacts of Port Communities Served by the Cruise Industry				
	2019	2020	Difference	
Port Community Total Wages	\$9,983,885,594	\$9,678,225,599	(\$305,659,995)	-3.1%
Port Community Employment	237,713	215,416	(22,297)	-9.4%

Gross State Product Loss to State of Alaska - ~\$3 Billion Annually. This report documents \$1.7 billion in direct losses to the state, but it is important to recognize that the cruise industry and the visitors they serve account for \$3.0 billion of the state's economy. Together with induced and indirect impacts of reduced economic activity from the industry, the \$3.0 billion gross state product associated with the cruise industry has effectively dropped to zero.

A. Local Revenue Losses:

Alaskan communities have lost significant revenue, jobs and general economic activity as a result of the loss of cruises and tourism. These communities range from Ketchikan in southeast Alaska, to Seward, Whittier and Anchorage in central Alaska, and Unalaska to the west. Additionally, support industries in rail belt communities where cruise ship passengers often book trips to Denali and Fairbanks amongst others, have been impacted albeit to a lesser degree.

The analysis below provides estimated fiscal impacts to larger Alaska based communities for a single year under a no-sail order amounting to \$98.6 million in revenue losses each year, or \$197.2 million combining 2020 and estimated 2021. It uses assumptions outlined in the 2016 McDowell group

Impacts from Cruise Ship Season Cancellation

Juneau Visitor study.⁶ Commercial Passenger Vessel (CPV) revenue is forecasted to be zero for FY 2021 and FY 2022, per the DOR Spring 2021 forecast, based on an assumption of no large cruise ship visits in summer 2020 and summer 2021.

Community commercial passenger vessel (CPV) “head” tax is based upon prior year traffic multiplied by the applicable tax rate for the two communities that impose such a tax (\$8/passenger in Juneau and \$7/passenger in Ketchikan). Sales tax figures assume an average of \$188 spent in each port of call by tourists, multiplied by ship traffic and the tax rate. Similarly, the bed tax is calculated as traffic, multiplied by the average per capita spending on lodging stated in that study (\$11.00), times the applicable tax rate. Some of the revenue loss may be mitigated by the receipt of new stimulus funds from the American Rescue Plan Act.

Estimated Community Impacts for a Single Year Under a No-Sail Order:

Community	Sales Tax (est.)	CPV Tax (State Sharing)	CPV Tax (Community)	Bed Tax (est.)	Total
Anchorage		\$66,755		1,500,000	\$1,566,755
Fairbanks				2,147,246	\$2,147,246
Juneau	7,000,000	\$5,970,995	\$9,553,592	1,182,257	33,706,844
Sitka	6,500,000	\$615,545		\$81,252	\$7,196,797
Skagway	8,000,000	\$5,083,250		\$150,000	13,233,250
Wrangell	\$154,393	\$58,660		\$7,743	\$220,796
Haines	\$591,014	\$285,790		\$25,150	\$901,953
Kenai Peninsula	1,382,116	\$612,640			\$1,994,756
Ketchikan (City)	8,193,395	\$2,723,868	\$7,626,830	\$838,951	19,383,045
Ketchikan (Borough)	5,120,872	\$2,723,868			\$7,844,740
Kodiak (City)	\$285,414	\$54,220		\$11,928	\$351,562
Kodiak (Borough)		\$54,220			\$54,220
Homer	\$119,946	\$35,445			\$155,391
Hoonah	3,218,931	\$1,317,075			\$4,536,006
Nome	\$6,172	\$2,345		\$310	\$8,827
Seward	1,736,203	\$577,195		\$101,586	\$2,414,984
Unalaska	\$32,283	\$28,620		\$3,148	\$64,052
Valdez		\$61,845		\$1,440	\$63,285
Whittier	1,801,764	\$958,385			\$2,760,149
Total	4,142,502	\$21,230,721	\$17,180,422	3,903,765	98,604,657

⁶ <http://3.209.152.203/wp-content/uploads/2018/04/McDowell-Group-Juneau-Visitor-Profile-and-Economic-Impact-Report-10-2-2017.pdf>

Impacts from Cruise Ship Season Cancellation

Additionally, approximately \$18 million in dockage and moorage fees are earned directly by the communities.

Community Highlights:

On a national scale, these impacts may not seem so great but consider that the losses to Skagway are estimated to exceed 100% of their annual operating budget. In the Mayor's own words, the continuation of the no sail order "will mean 2 ½ years with no economy. Somewhere around \$330.0 million in lost revenue for local businesses. People are already moving away. Population is down to around 800 from 1,100 last summer. Businesses will fail. A lot of them. We lost professionals in all sectors. The municipality will run out of reserves by next August, even with the stimulus funding."

In a May 2020 report that surveyed tourism-related businesses in Ketchikan, only 26% of businesses said they would be able to endure a delayed restart of the tourism industry in Ketchikan if business do not resume until spring 2021.⁷

Interior Alaska is often visited by cruise visitors taking cruise/land tours or exploring the area on their own before or after a cruise. According to the Alaska Visitor Statistics Report, in 2016, 51% of visitors to Denali and 41% of visitors to Fairbanks came from cruise ships. That year, 21% of all cruise visitors to Alaska visited the interior, with 20% going to Denali and 12% visiting Fairbanks. The same percentage stayed overnight in the areas, with average stays of 2 nights at Denali and 1.8 nights in Fairbanks. The Interior Alaska city of Talkeetna also benefits from visitors going to or coming from cruise ships. In 2016, 39% of visitors to Talkeetna also traveled by cruise ship. In September, Explore Alaska reported on the Status of Interior Alaska Tourism Industry Due to COVID-19 (Interior Alaska Report).⁸ That report estimates that over 160,000 cruise passengers would have visited that region in 2020. Further, many seasonal hotels in Denali and Fairbanks, often catering to cruise passengers, did not open at all in 2020.

⁷ Patti Mackey, CEO & President of Ketchikan Visitors Bureau, City of Ketchikan, Ketchikan Tourism Survey – Impacts of COVID-19 and related information (May 4, 2020), <https://ketchikan.primegov.com/Portal/viewer?id=1116&type=2> (last visited Oct. 4, 2020).

⁸ Explore Fairbanks. Status of Interior Alaska Tourism Industry Due to COVID-19 (Sep. 18, 2020)

Impacts from Cruise Ship Season Cancellation

B. State Level Government Revenue Losses:

Data from a variety of sources illustrates the revenue loss to the State of Alaska of the cruise ship/tourism industry. In total, the loss equates to \$90.3 million in 2020 and \$134.2 million in 2021.

<u>Estimated Alaska Tourism Revenues</u>			
<u>Fiscal Year</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
<u>Agency - Program</u>	<u>(\$ Millions)</u>	<u>(\$ Millions)</u>	<u>(\$ Millions)</u>
<u>Department of Revenue</u>	<u>\$64.4</u>	<u>\$39.3</u>	<u>\$4.4</u>
Corporate Income Tax	<u>\$20.0</u>	<u>\$16.5</u>	<u>(\$1.3)</u>
Commercial Passenger Vessel Tax	<u>\$23.0</u>	<u>\$0.0</u>	<u>\$0.0</u>
Vehicle Rental Tax	<u>\$11.4</u>	<u>\$9.7</u>	<u>\$5.7</u>
Large Passenger Vessel Gambling Tax	<u>\$10.1</u>	<u>\$13.1</u>	<u>\$0.0</u>
<u>Department of Fish and Game</u>	<u>\$27.8</u>	<u>\$25.3</u>	<u>\$26.6</u>
Non-Resident Sport Fishing, Stamps	<u>\$19.2</u>	<u>\$16.6</u>	<u>\$17.9</u>
Non-Resident Hunting, Trapping, Tags	<u>\$8.6</u>	<u>\$8.7</u>	<u>\$8.8</u>
<u>Department of Natural Resources</u>	<u>\$4.6</u>	<u>\$4.7</u>	<u>\$4.2</u>
Parks & Outdoor Recreation	<u>\$4.6</u>	<u>\$4.7</u>	<u>\$4.2</u>
<u>Department of Transportation & Public Facilities</u>	<u>\$68.5</u>	<u>\$42.9</u>	<u>\$30.6</u>
AIAS Passenger-related Revenues	<u>\$68.5</u>	<u>\$42.9</u>	<u>\$30.6</u>
<u>Department of Environmental Conservation</u>	<u>\$6.2</u>	<u>\$0.9</u>	<u>\$3.4</u>
Ocean Ranger Fees	<u>\$4.9</u>	<u>\$0.8</u>	<u>\$2.7</u>
Environmental Compliance Fees	<u>\$1.3</u>	<u>\$0.1</u>	<u>\$0.7</u>
<u>Alaska Railroad Corporation</u>	<u>\$31.9</u>	<u>\$0.0</u>	<u>\$0.0</u>
Cruise Passenger Fares	<u>\$31.9</u>	<u>\$0.0</u>	<u>\$0.0</u>
<u>Statewide Total by Fiscal Year</u>	<u>\$203.4</u>	<u>\$113.1</u>	<u>\$69.2</u>
<u>Revenue Change from 2019</u>	<u>\$0.0</u>	<u>(\$90.3)</u>	<u>(\$134.2)</u>

Department of Revenue "Non-Petroleum Corporate Income Tax Collections by Sector, Fiscal Years 2017 - 2020," Tax Division FY 2019 Annual Report, preliminary Tax Division FY 2020 Annual Report, Fall 2020 revenue forecast, Alaska Department of Fish and Game, Alaska Department of Natural Resources, Alaska Department of Transportation & Public Facilities. Data also from the Southeast Conference Report for Railroad Revenues.

C. Wage and Employment Losses

Below, is a comparison of employment and wages between the first three quarters of 2019 and the first three quarters of 2020. The reason this analysis only includes the first three quarters is because summer tourism/cruise ship employment occurs within that time frame. This is not specific to the visitor-related industries, but the employment and wage losses in these communities would in large part be the result of the non-existent cruise season in 2020.

Impacts from Cruise Ship Season Cancellation

	2019		2020		Change in employment 2019 and 2020	Percent change in employment	Change in total wages 2019 and 2020	Percent change in total wage
	Total Wages	Average employment (Q1-3)	Total Wages (Q1-3)	Average employment (Q1-3)				
Anchorage	\$6,684,501,651	150,110	\$6,535,424,908	137,958	-12,152	-8.1	(\$149,076,743)	-2.2
Haines	\$33,544,610	1,090	\$23,168,622	789	-301	-27.6	(\$10,375,988)	-30.9
Homer	\$123,183,443	3,620	\$123,701,435	3,321	-300	-8.3	\$517,992	0.4
Hoonah	\$12,562,507	465	\$10,746,667	335	-129	-27.8	(\$1,815,840)	-14.5
Juneau	\$712,745,410	18,220	\$684,040,321	15,850	-2,370	-13	(\$28,705,089)	-4
Kenai Penn	\$761,479,656	20,351	\$760,190,763	18,823	-1,528	-7.5	(\$1,288,893)	-0.2
Ketchikan (city)	\$269,588,149	7,582	\$245,019,243	6,290	-1,292	-17	(\$24,568,906)	-9.1
Ketchikan Gateway Borough	\$269,724,447	7,585	\$245,151,284	6,294	-1,292	-17	(\$24,573,163)	-9.1
Kodiak (city)	\$200,018,846	5,590	\$196,254,619	5,380	-211	-3.8	(\$3,764,227)	-1.9
Kodiak Borough	\$216,213,697	6,001	\$212,128,393	5,795	-205	-3.4	(\$4,085,304)	-1.9
Nome (city)	\$112,676,458	2,182	\$113,089,729	2,091	-90	-4.1	\$413,271	0.4
Seward	\$83,625,149	2,477	\$75,381,529	2,057	-420	-17	(\$8,243,620)	-9.9
Sitka	\$161,652,068	4,465	\$142,544,432	3,787	-678	-15.2	(\$19,107,636)	-11.8
Skagway	\$38,670,925	1,185	\$20,056,498	570	-614	-51.9	(\$18,614,427)	-48.1
Unalaska	\$144,718,760	3,082	\$145,498,601	3,034	-48	-1.5	\$779,841	0.5
Valdez	\$122,343,376	2,553	\$114,038,196	2,048	-505	-19.8	(\$8,305,180)	-6.8
Whittier	\$10,672,283	320	\$8,405,505	252	-68	-21.2	(\$2,266,778)	-21.2
Wrangell	\$25,964,159	835	\$23,384,854	742	-94	-11.2	(\$2,579,305)	-9.9
Total	\$9,983,885,594	237,713	\$9,678,225,599	215,416	-22,297	-9.3	(\$305,659,995)	-3.1

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section. Quarterly Census of Employment and Wages

Job Losses in Southeast: Conference 2020 Tourism Business Leader Survey:

A survey was conducted by the Southeast Conference from March 20th-25th, 2020. 107 business leaders responded to the survey regarding the health of their business at the start of the pandemic. These businesses represent communities that rely heavily on the cruise ship industry like Ketchikan, Juneau, Skagway, and Sitka. 80% of the responding businesses expressed maximum concerns about the impacts of COVID-19 on their business. Out of the 856 tourism workers represented, business owners were forced to lay off 642; which equates to a 75% reduction in staffing. This survey also reported an average revenue decline of 63% at the start of the pandemic as compared to the same time in 2019.

Impacts from Cruise Ship Season Cancellation

D. Revenue Losses to Local Businesses

The cruise industry is crucial to Alaska tourism and the state's financial well-being. The industry includes approximately 2,180 Alaska businesses that provide tours, activities, and services to the cruise lines and their passengers, according to Cruise Lines International Association (CLIA). The businesses range from retail, restaurants, and car-rental companies to air transportation providers, hotels and lodges, day cruises, and shore excursions.

The financial effect of the cruise industry is evident across multiple sectors, including direct visitor spending, cruise line spending and payroll, crew member spending, air and ferry tickets, employment and labor income, and revenue to municipal and state governments. Losses to local businesses are estimated at \$1.1 billion based on an analysis by McDowell Group. This is comprised of an estimated \$700-800 million in direct spending by cruise passengers in local Alaskan communities, \$297 million in cruise line spending on goods and services, and \$22 million in crew member spending while at port.⁹

E. Dockage fee loss

Docks and harbors have a variety of ownership mixes throughout the state. While many cruise operators own the docks that they use in the course of their business, Juneau and Ketchikan own the majority of the docking facilities used by cruise ships. These fees, which typically are charged based on length of ship, time in port, and use of amenities such as water and dock power, equate to \$18.0 million annually.

F. Loss in Unemployment Reserve Trust

The sustainability of the unemployment insurance trust fund is beginning to concern many Alaskans. In combined state and federal funding, more than one billion dollars has been paid out to Alaskans through the unemployment insurance program. The balance of the UI trust fund was \$492.9 million in February of 2020 as compared to the latest balance of \$265.8 million.¹⁰ This results in a loss of \$227 million of which \$29.8 million can be attributed directly to the cruise industry.¹¹

G. Impacts to Gross State Product:

Prior to the COVID-19 pandemic, the Cruise Line Industry Association (CLIA) reported 40 cruise ships visited the region, carrying 1.36 million passengers on 577 voyages in 2019. Granular gross state product data is not available or tracked by industry. However, according to the McDowell group, the total gross economic output of the tourism industry as a whole is \$4.5 billion.¹² Historically, about 1.3 million of the 2 million visitors to the state can be attributed to the cruise industry and the

⁹ <https://www.akbizmag.com/industry/tourism/alaskas-shipshaped-economy/>

¹⁰ Source: Department of Labor and Workforce Development as of 3/26/2021

¹¹ 43,300 direct, indirect, and induced cruise industry jobs per McDowell group as a proportion of 2019 Average Annual

¹² <https://www.akbizmag.com/industry/tourism/alaskas-shipshaped-economy/>

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passengers that they serve, implying a Gross State Product impact of about a \$3.0 billion loss in each year of the no-sail order.^{13 14}

Data from a recent Southeast Conference report (McDowell) illustrates some of the impacts of these visitors including¹⁵:

- Between \$700 and \$800 million in direct cruise tourist spending in local communities¹⁶
- \$297 million in cruise line goods, services and Alaska based payroll spending
- \$22 million in crew member spending
- The generation of \$1.5 billion in annual labor income including direct, indirect and induced, representing 43,300 jobs

According to the McDowell group, this visitor spending occurred in various economic sectors, with several categories receiving about one-fifth each: lodging (21 percent), gifts (20 percent), food and beverage (20 percent), tours (18 percent), and “other,” which is largely made up of overnight packages that affect several sectors.

Conclusion:

The continuation of both the “no-sail” order and the Canadian decision to not allow large cruise ships to enter their waters will continue to have a material impact on the State of the Alaska and the health of its finances. A return to normalcy would be impactful and represent more Alaskans at work, spending money in the local economy and a lower reliance on government programs. It is the goal of the Dunleavy Administration to come out of the COVID-19 crisis with resiliency and to give our citizens the tools they need to support and foster economic recovery.

¹³ <https://akcruise.org/economy/economic-impact-by-region/>

¹⁴ GDP from visitor industry taken pro rata with the number of cruise visitors

¹⁵ <https://www.akbizmag.com/industry/tourism/alaskas-shipshaped-economy/>

¹⁶ Economic Impacts Associated with of the Loss of Tourism in Southeast Alaska in 2020 – Southeast Conference and Rain Coast Data