

Ship going to drydock
is a bonus because more
people

bae



Economic Impact of
Cruise Industry
June 8, 2007

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Introduction

- **Analysis of the local economic and fiscal impacts of the San Francisco cruise industry**
- **Methodology**
 - *Interviews with Port staff:* Collect data on ship calls, passenger trends, and interaction between cruises and local private and municipal services (e.g., parking, public safety, Port)
 - *Interviews with cruise industry representatives:* Secure data on ship spending; explore future plans for San Francisco market
 - *Literature review:* Examine other cruise industry analyses as comparison
 - *IMPLAN:* Use input-output model to evaluate economic multiplier effects
 - *Fiscal analysis:* Study the cruise industry's revenue and cost impacts on City General Fund

Summary of Findings

- **The cruise industry annually supports \$31.2 million in economic activity and 300 jobs within the City**
- **The cruise industry generates approximately \$900,000 in annual fiscal revenues to the City's General Fund**
- **The Port has potential to gain additional market share in the Pacific if it:**
 - Overcomes expansion limits
 - Continues to market itself as a cruise home port and destination
 - Builds relationships with cruise lines
 - Continues to improve its facilities

San Francisco as a Cruise Site

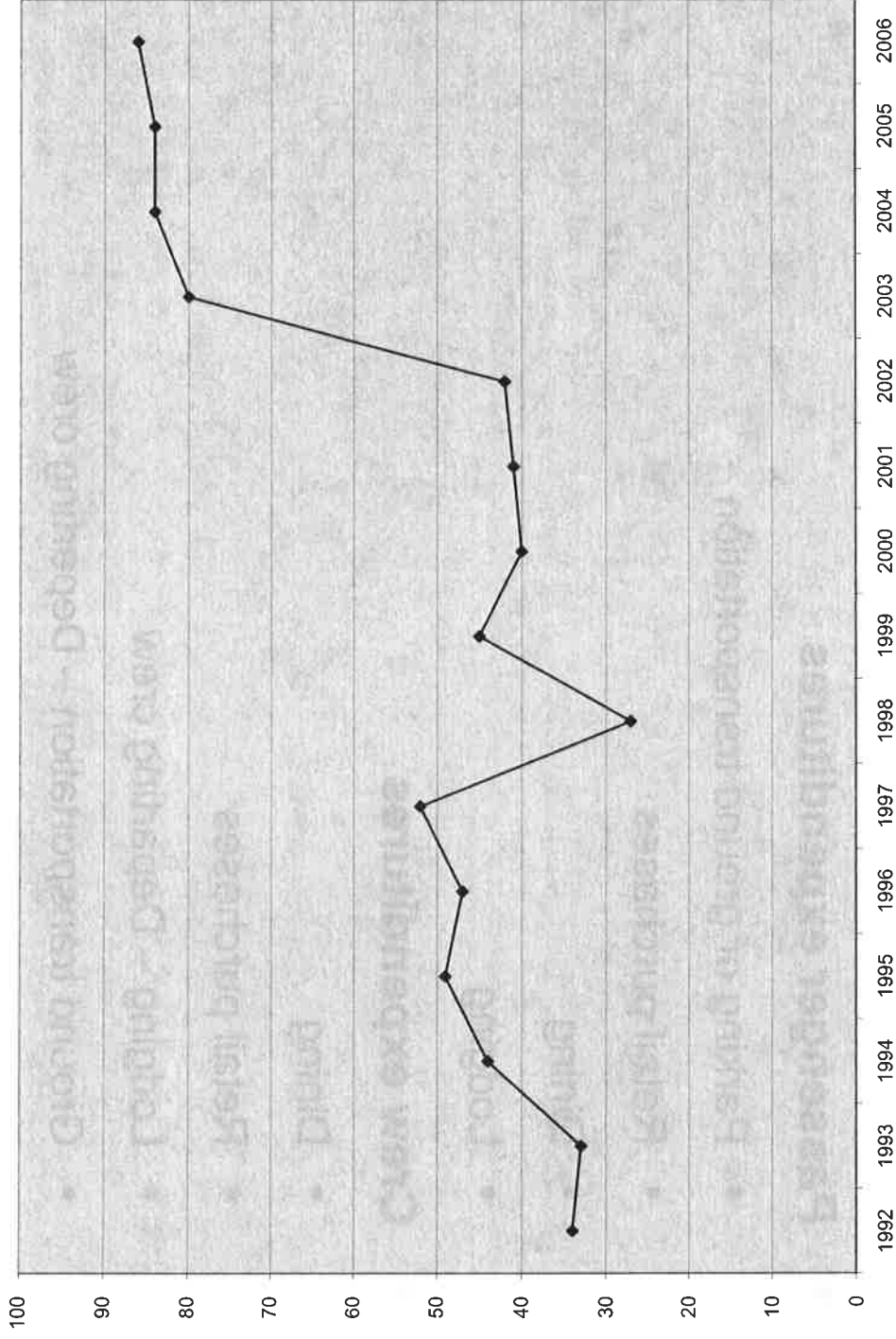
- **San Francisco Strengths as a Cruise Site**
 - World class destination
 - Cruise terminal located blocks from City's tourism centers
- **Competition from Other Pacific Ports**
 - Southern California ports: Mexico routes
 - Seattle and Vancouver ports: Alaska routes
 - Competing cities offer comparable attractions to San Francisco
 - Offer shorter cruises (7-9 days) to same destinations that take 10-11 days out of San Francisco
- **San Francisco remains at a market disadvantage compared to other Pacific ports**

Historical Trends

- **Strong growth since 2003**
 - 7.5 percent increase in calls
 - 17 percent decrease in home port calls
 - 64 percent increase in passengers

- **Fluctuating industry subject to variety of events**
 - Industry decisions
 - International events

Historical Trends Cont., Total Calls



- Volatile industry suggests ongoing investment in infrastructure and marketing is necessary for SF to remain competitive

Contributions to the Local Economy

- **Passenger expenditures**
 - Parking or ground transportation
 - Retail purchases
 - Dining
 - Lodging
- **Crew expenditures**
 - Dining
 - Retail purchases
 - Lodging – Departing crew
 - Ground transportation – Departing crew

Contributions to the Local Economy, Cont.

- **Ship expenditures**
 - User fees
 - Passenger wharfage
 - Dockage
 - Terminal operator fees
 - Ground staffing agent
 - Bunkering wharfage fee
 - Provisioning fee

Contributions to the Local Economy, Cont.

Passenger, Crew, and Ship Expenditures, 2006

	2006
	<u>Expenditures</u>
Passengers	\$13,678,000
Port-of-Call (Transit) Passengers	\$4,388,000
Embarkation Passengers:	
Overnight Stays	\$6,385,000
Day of Cruise Arrival/Departure- Driving	\$2,390,000
Day of Cruise Arrival/Departure- Flying	\$515,000
Crew Members	\$3,112,000
Ships	\$9,794,000
Home Port	\$4,793,000
Transit	\$5,001,000
TOTAL	\$26,583,000

Sources: San Francisco Port Representative, 2007; San Francisco Convention and Visitor's Bureau, 2006; Business Research and Economic Advisors, 2006; U.S. General Services Administration County Per-Diem Allowances, 2007; Bureau of Labor Statistics, 2006; Norwegian Cruise Line (NCL) representatives, 2007; Princess Cruise Line representative, 2007; Bay Area Economics, 2007.

IMPLAN Methodology

- **IMPLAN model used to estimate the cruise industry's local impacts**
- **IMPLAN generates a series of geography-specific multipliers that predict output and employment impacts**
 - *Output:* Gross receipts in the local economy
 - *Employment:* Number of employees needed to support the economic activity within the local economy
- **Impacts expressed as**
 - *Direct impacts:* Dollar value of economic activity available to circulate through the economy
 - *Indirect impacts:* "Inter-industry" impacts, or business to business expenditures
 - *Induced impacts:* Household expenditures that result from direct and indirect dollars

IMPLAN Findings, 2006 Analysis

Economic Impacts of 2006 Cruise Industry Operations, San Francisco County

Impact	Direct	Indirect	Induced	Total
Passenger Expenditures				
Output	\$10,182,000	\$2,655,000	1,923,000	\$14,760,000
Employment	136	17	14	167
Crew Expenditures				
Output	\$1,784,000	\$437,000	375,000	\$2,596,000
Employment	26	3	3	32
Ship Expenditures				
Output	\$9,794,000	\$801,000	3,251,000	\$13,846,000
Employment	74	5	24	103
Total				
Output	\$21,760,000	\$3,893,000	\$5,549,000	\$31,202,000
Employment	237	25	40	302

Sources: Port of San Francisco Staff, 2007; Cruise Line Representatives, 2007; IMPLAN, 2007; BAE, 2007.

- **1.43 multiplier indicates that \$21.8 million in direct expenditures results in \$31.2 million in citywide economic impacts**

Fiscal Revenues

Direct Fiscal Benefits to City of Cruise Industry, 2006

	<u>Passengers</u>	<u>Crew</u>	<u>Total</u>
Sales Taxes	\$91,000	\$27,000	\$119,000
Transient Occupancy Taxes (TOT)	\$262,000	\$32,000	\$293,000
Parking Taxes	\$448,000	\$0	\$448,000
Other Taxes (a)			\$37,000
Total	\$801,000	\$59,000	\$897,000

Notes: (a) Includes Business Tax, Utility Users Tax paid by Metropolitan Stevedoring Co. based on local employment.
 Source: BAE, 2007.

- **Passengers and crew directly contributed approximately \$860,000 to the City via retail purchases, hotel stays, and parking in 2006**
- **Metropolitan Stevedoring Co. also generated approximately \$37,000 in business and utility users taxes in 2006**

Future Trends: Expansion Potential

- **Introduction of six Panamax ships to the Pacific fleet**
 - Carry up to 2,600 passengers
 - Increased number of transit passengers for some calls
 - Free up smaller (2,000 passenger) ships for additional home ports out of San Francisco
- **Norwegian Cruise Line is testing three new sailings starting in 2008**
- **Gas turbine engines allow for faster sailings that can potentially allow for seven day cruises out of San Francisco**

Future Trends: Expansion Limitations

- **Some industry representatives indicate the Pacific market is saturated**
- **Infrastructure at destination ports (Alaska and Mexico) at capacity and cannot support additional sailings**
- **San Francisco suffers from locational disadvantage compared to northern and southern ports**
- **Faster ships are less cost effective**
 - Cruise lines may use these ships to visit more ports on a seven-day cruise out of San Diego, rather than add seven-day cruises out of San Francisco

Future Trends, Cont.

- **Projections for economic impact analysis**
 - Two scenarios analyzed
 - Low Growth Scenario – 1 new home port ship: Alaska
 - High Growth Scenario – 2 new home port ships: Alaska and Mexico

Expenditures Under Forecast Scenarios

	Low Scenario	% Growth Over 2006	High Scenario	% Growth Over 2006
No. of Calls	98	14%	118	37%
No. of Passengers	182,105		222,105	
Passenger Expenditures	\$15,555,000		\$18,685,000	
Crew Expenditures	\$3,579,000		\$4,359,000	
Ship Expenditures	\$11,269,000		\$12,498,000	
Total	\$30,403,000		\$35,542,000	

Source: BAE, 2007.

Future Trends, Projection Analysis

Economic Impacts of Forecast Scenarios

Impact	Direct	Indirect	Induced	Total
Low Scenario				
Output	\$25,078,000	\$4,509,000	\$6,376,000	\$35,963,000
Employment	271	29	47	347
High Scenario				
Output	\$29,336,000	\$5,424,000	\$7,338,000	\$42,098,000
Employment	319	35	54	408

Sources: Port of San Francisco Staff, 2007; Cruise Line Representatives, 2007; IMPLAN, 2007; BAE, 2007.

- **Low Scenario: Multiplier of 1.43 indicates that \$25.1 million in direct expenditures results in \$36.0 million in citywide economic impacts**
- **High Scenario: Multiplier of 1.43 indicates that \$29.3 million in direct expenditures results in \$42.1 million in citywide economic impacts**

Summary of Findings

- **The cruise industry is a significant contributor to the San Francisco economy**
- **The decisions of a limited number of cruise lines have major effects on the industry as a whole**
- **Even the addition of a single home port ship can have a notable impact in San Francisco**
- **Ongoing investment in Port facilities and marketing efforts can help capture additional market share in the Pacific**