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October 12, 2012

The Honorable Mayor Craig Cates  
City of Key West  
3104 Flagler Avenue  
Key West, FL 33040

Dear Mayor Cates:

Enclosed please find the Key West Chamber of Commerce's cruise ship presentation, a Letter to the Editor in the Florida Keys Keynoter dated October 3, 2012, and section 922.122 from NOAA Florida Keys National Marine Sanctuary regulations.

The Key West Chamber of Commerce will be presenting an overview of the cruise ship industry as it pertains to the City of Key West. This informative and educational presentation will focus on the economic benefit to the city, businesses and residents at the Special City Commission meeting on October 17, 2012.

We sincerely appreciate your time and consideration. If you have any questions regarding the presentation, please contact Ms. Jennifer Hulse at (305)292-7771.

Sincerely,

Virginia A. Panico  
Executive Vice President

cc: Commissioner Teri Johnston  
Commissioner Clayton Lopez  
Commissioner Mark Rossi  
Commissioner Billy Wardlow  
Commissioner Jimmy Weekley  
Commissioner Tony Yaniz

Mr. Bob Vitas, City Manager  
Mr. Mark Finigan, Asst. City Manager  
Mr. Shawn Smith, City Attorney  
Ms. Cheri Smith, City Clerk  
KWCC Directors of the Board

"The mission of the Greater Key West Chamber of Commerce is to serve its members and maintain a viable economy for the businesses and working people of Key West."

# Cruise Ship Information and Education

*Copyright Key West Chamber of Commerce, 2012*

# The Chamber's Position

- \* Considering the economic impact to all Key West residents and our business community, the Chamber supports a feasibility study
- \* The study will improve and enhance the information we already have so that we, as a community, can make an educated decision about our tourism economy
- \* The Chamber has not and will not take a position on widening the Channel until the study is completed and evaluated



# What is a Feasibility Study?

- \* Study is mandatory and conducted by the U.S. Army Corp. of Engineers
- \* Study will determine the feasibility of widening Cut B by 150 feet for a distance of approx. one nautical mile to allow safe navigation into the Harbor
- \* Study will not explore the option of changing the controlling depth of the Channel

# What Will the Study Include?

- \* Feasibility Study will include:
  - “ Environmental Impact Analysis
  - “ Socioeconomic Analysis
  - “ Compliance with Fish and Wildlife Act
  - “ Possible Mediation Requirements
  - “ Cost and Funding Analysis

◆ Source: U.S. Army Corps of Engineers

# Legal Issues

- \* There are no federal statutes pertaining to the potential widening project, only Marine Sanctuary regulations which will be evaluated in the feasibility study
- \* “Although there is a regulation against dredging in the Florida Keys Marine Sanctuary, there is a precedent for the U.S. Commerce Department to provide a one-time waiver for dredging. There is no need for Congress to change any laws if the dredging is identified as a viable project by the Corps.”

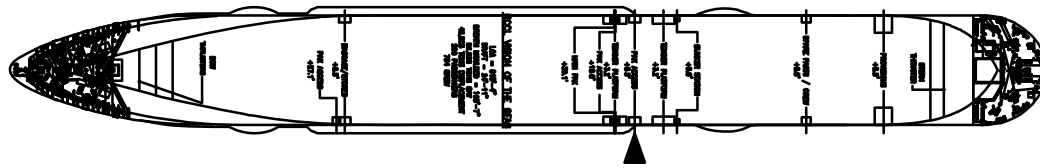
*- Doug Wheeler, President, Florida Ports Council  
as appearing in the Florida Keys Keynoter 10/3/12*



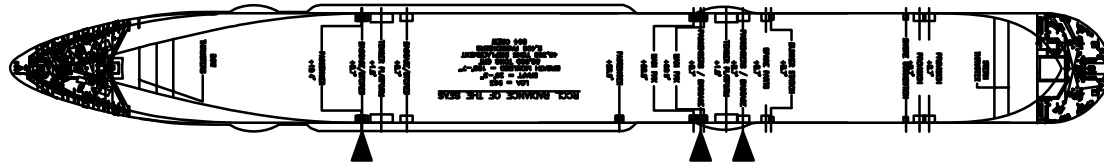
# Cruise Industry Facts

- \* Due to the recent expansion of the Panama Canal, newer generation of cruise ships are wider and slightly longer to allow for technological advances and more amenities, particularly with higher end cruise lines
- \* Many of the older cruise ships are being rotated overseas and replaced with newer generation ships
- \* Newer generation ships are more environmentally friendly and have less impact on our waters

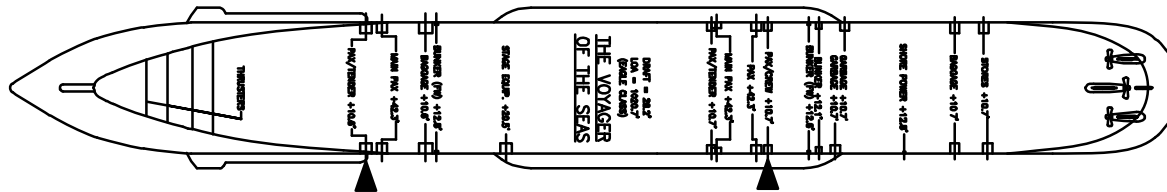




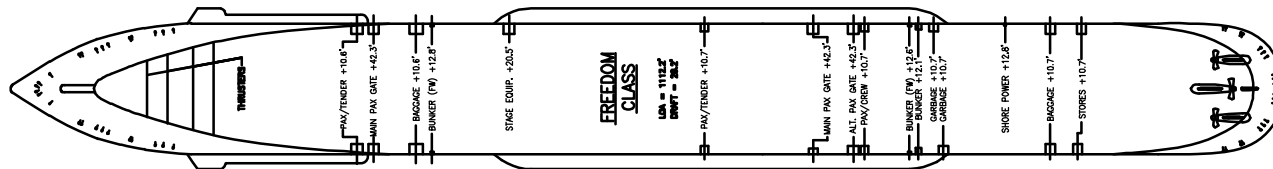
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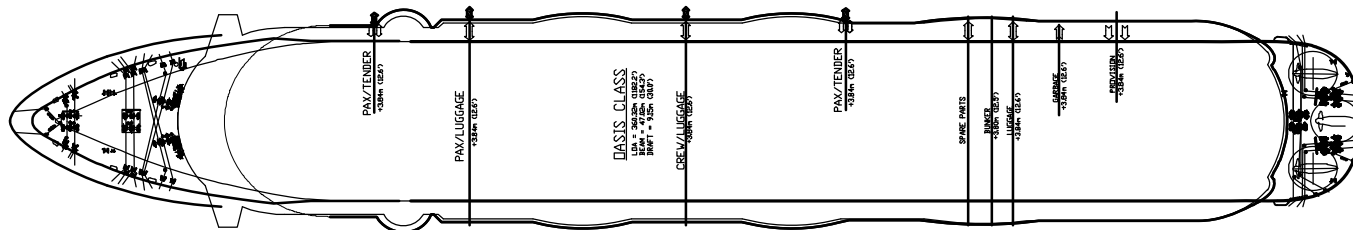
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 MARINER OF THE SEAS  
 NAVIGATOR OF THE SEAS  
 VOYAGER OF THE SEAS



FREEDOM CLASS  
 FREEDOM OF THE SEAS  
 LIBERTY OF THE SEAS  
 INDEPENDENCE OF THE SEAS



OASIS CLASS  
 OASIS OF THE SEAS  
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Source: Royal Caribbean International

# Key West Cruise Ship Visitors

- \* 833,000 cruise ship visitors in Fiscal Year 2011-12 (one-third of all visitors)
- \* For FY 2012-13, projected cruise ship visitor count has declined to 714,000
- \* **16% decrease in cruise ship visitor count in just one year**
- \* 80% of cruise ship visitors arrived on one cruise line (Carnival)

◆ Source: City of Key West, Tourist Development Council

# Cruise Ship Visitor Value to Our Key West Businesses

- \* Cruise ship visitors spend approximately \$102 per day with Key West businesses, for a total in excess of **\$80.7M**
- \* Crew expenditures account for an additional **\$6.4M** in revenue to Key West businesses
- \* Equates to in excess of **\$87M** in revenue to our Key West businesses each year

◆ Source: Tourist Development Council, Florida Caribbean Cruise Association

# Cruise Ship Visitor Value to the City: Disembarkation Fees

- \* A disembarkation fee is a fee paid by the cruise lines for every passenger on each ship that calls on Key West
- \* Disembarkation revenue goes directly into Key West's General Fund Budget to subsidize City operations
- \* For the 2011-12 fiscal year General Fund, cruise ships provided Actual Net Revenue of **\$2.5M** in disembarkation fees alone

◆ Source: City of Key West

# Net Disembarkation Fees Paid Directly to City's General Fund Budget

	<u>Mallory Square</u>	<u>Mole Pier (Navy)</u>	<u>Pier B (Westin)</u>
<b><u>Revenue</u></b>			
<b>Disembarkation Fee</b>	<b>\$10</b>	<b>\$10</b>	<b>\$2.50</b>
<b>Security fee</b>	<b>\$0.63</b>	<b>\$0.63</b>	
<b><u>Expenses</u></b>			
<b>Security</b>	<b>\$0.30/pax</b>	<b>\$8.02/pax</b>	
<b>Transportation</b>			
<b>Navy Lease</b>			
<b><u>Net per passenger</u></b>	<b>\$10.33</b>	<b>\$2.61</b>	<b>\$2.50</b>

◆ Source: City of Key West

# Cruise Ship Visitor Value: Sales Tax, Key West

\* Key West annual sales tax revenue from cruise ship visitors:

“ City’s Portion of 6% State Sales Tax in excess of  
**\$110,000**

“ City’s Portion of 1% Infrastructure Tax in excess of  
**\$219,000**

**Total Annual Cruise Ship Visitor Sales Tax Revenue to  
City of Key West in excess of \$329,000**

◆ Source: City of Key West

# Total Cruise Ship Visitor Value to Key West Budget Annually

- “ Disembarkation Fees: **\$2.5M**
- “ Sales Tax Revenue:
  - Sales Tax: **\$110,000**
  - Infrastructure Tax: **\$219,000**
  - City Rent and Franchise Fees attributed to cruise ship visitors (Mallory Square, KW Bight, Water Sport Companies, & Train/Trolleys): **\$1.2M**

**Total Annual Direct Revenue to Key West Budget: \$4.0M**

◆ Source: City of Key West



# Cruise Ship Visitor Value: Monroe County

- \* Monroe County annual sales tax revenue from cruise ship visitors:
  - ” County’s portion of 6% State Sales Tax in excess of **\$329,000**
  - ” County’s portion of 1% Infrastructure Tax in excess of **\$658,000**
  - ” .5% School District Tax in excess of **\$438,000**

**Total Annual Cruise Ship Visitor Sales Tax Revenue to the County in excess of \$1.4M**

◆ Source: Monroe County, Florida

# Cruise Ship Visitor Value: State of Florida

\*State's Annual Portion of Sales  
Tax Revenue from Key West  
Cruise Ship Visitors (5.5%):

**\$4,800,000**

# How Declining Cruise Ship Visitor Counts Impact the City Budget

- \* As our passenger counts decline, there is a net loss to the City that directly impacts the General Fund Budget
- \* For the 2011-2012 \$36M General Fund, the City collected \$13.7M in ad valorem taxes
- \* Based on scheduled port calls for the 2012-13 fiscal year, the City projects an estimated **\$418,000 decrease** in net disembarkation fees, which is a **17% decrease** in just one year

◆ Source: City of Key West

# How Declining Cruise Ship Visitor Counts Impact Key West Residents

- \* Increases in Ad Valorem Taxes

- ” **As a result of projected decline in cruise ship revenue, City has proposed a 2% millage rate increase for 2012-13 budget year**

- \* Increases in City Fees (parking, building permits, filing fees, user fees, etc.)

- ” **Proposed \$.25 increase in hourly City parking rates for 2012-13 budget year**

# Can We Replace Cruise Ship Visitors With Other Forms of Tourism?

- \* Key West hotels operate at 90% occupancy
- \* Operating at 100% capacity, Key West would need 575 more rooms to replace the number of cruise ship tourists
- \* Would amount to 550 more cars on the road per day and/or 4 additional airplanes into Key West

# Cruise Ship Visitor Value On Overall Tourism

## \* Initial exposure and word of mouth value

- “ Many visitors are introduced to Key West for the first time via cruise ship
- “ Key West is the highest rated cruise ship destination in the Caribbean - 83% report overall satisfaction
- “ 62% of cruise ship visitors report they will return to Key West for a longer visit, and 32% report they might.

◆ Source: Key West Cruise Passenger Study funded by TDC ( Thomas J. Murray & Associates, Inc.)

# Cost and Timing of Study

- \* 3-3-3 Plan
  - ” \$3M Study
  - ” 3 Years for completion
  - ” 3 Levels of Oversight
- \* Federal funding – 50% (\$1.5M)
- \* State funding – 25% (\$750,000)
- \* Other/Private funding – 25% (\$750,000)

◆ Source: U.S. Army Corp of Engineers



# OTHER/PRIVATE FUNDING

- \* The City of Key West will **NOT** incur the expense for any portion of the Study through ad valorem tax dollars
- \* Local funding will be provided by private entities who will commit to fund any portion of the study not funded by federal or state governments

# Conclusion

- \* Cruise ships have a substantial impact on our tourism economy and our City Budget, enhancing the quality of life for all of our residents
- \* A small portion of the Main Ship Channel (Cut B) must be widened to accommodate newer generation cruise ships and to attract higher end cruise lines with higher income visitors
- \* The results of a Feasibility Study will allow us, as a community, to make an informed decision about our tourism economy
- \* The City will not fund the Study through ad valorem tax dollars, but its residents will substantially benefit from the information it will provide to assess our options for the future

# Opinion & Editorial

## LETTERS TO THE EDITOR

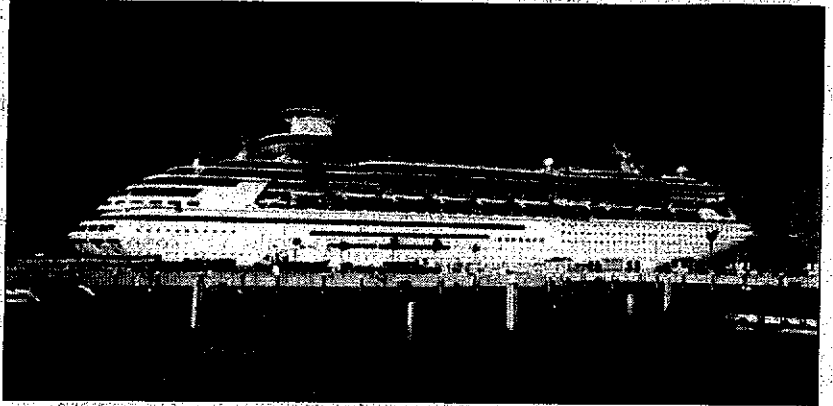
### Explore wider channel

Like ports across Florida, the Port of Key West is an economic engine for its community. In order to remain competitive and accommodate changes in the shipping industry, ports must continually evaluate their infrastructure needs while balancing the needs of the environment.

The facts are that the Port of Key West has been a valuable contributor to the local community. Without improvements, the cruise industry will continue to reduce its visits to Key West as a port of call. Larger cruise ships generally translate into more passengers, which equal more revenue for the community. The City Commission has already had to compensate for the loss of cruise revenue. What happens when the cruise business drops even further due to lack of action?

The Port of Key West has proactively identified the widening of Cut B as a possible strategy to increase their competitiveness and attract more cruise business. This would allow for longer ships to safely navigate that portion of the channel. In order to evaluate the economic benefits and any possible negative impacts, a feasibility study is necessary.

The U.S. Army Corps of Engineers feasibility study for this improvement



Carnival's 'Majesty of the Sea' is among ships paying port calls to Key West.

is expected to cost \$3 million, not \$5.5 million as widely reported. This study would include an environmental analysis, which would thoroughly examine any possible environmental impacts.

In addition, although there is a regulation against dredging in the Florida Keys Marine Sanctuary, there is precedent for the U.S. Commerce Department to provide a one-time waiver for dredging. There is no need for Congress to change any laws if the dredging is identified as a viable project by the Corps.

There is always a balance for a port when evaluating improvements versus

environmental and other possible concerns. The Corps feasibility study would thoroughly evaluate all of the factors implicated in a project of this type.

With the importance of the future health of the Port of Key West to the local economy, the study is necessary to make an educated decision as to whether the widening of the channel will result in economic benefits and what other impacts might occur. Local leaders and the port need answers on the dredging, and the study can provide them.

Doug Wheeler, president  
Florida Ports Council  
Tallahassee

# NOAA Florida Keys National Marine Sanctuary Regulations

## § 922.122 Prohibited or otherwise regulated activities.

(a) Except as specified in paragraphs (c) through (h) of this section, the following activities are prohibited and thus are unlawful for any person to conduct or to cause to be conducted:

a (4) Drilling into, dredging, or otherwise altering the seabed of the Sanctuary (except as allowed under paragraph (c) of this section); or constructing, placing, or abandoning any structure, material, or other matter on the seabed of the Sanctuary.

(g) The prohibitions in paragraphs (a)(2) through (11) of this section do not apply to any activity authorized by any lease, permit, license, approval or other authorization issued after January 18, 1994, provided that the applicant complies with § 922.49, the Director notifies the applicant and authorizing agency that he or she does not object to issuance of the authorization, and the applicant complies with any terms and conditions the Director deems necessary to protect Sanctuary resources and qualities.

§ 922.49 Notification and review of applications for leases, licenses, permits, approvals, or other authorizations to conduct a prohibited activity.

(a) A person may conduct an activity prohibited by subparts L through P, or subpart R, if such activity is specifically authorized by any valid Federal, State, or local lease, permit, license, approval, or other authorization issued after the effective date of Sanctuary designation, or in the case of the Florida Keys National Marine Sanctuary after the effective date of the regulations in subpart P, provided that:

(1) The applicant notifies the Director, in writing, of the application for such authorization (and of any application for an amendment, renewal, or extension of such authorization) within fifteen (15) days of the date of filing of the application or the effective date of Sanctuary designation, or in the case of the Florida Keys National Marine Sanctuary the effective date of the regulations in subpart P, whichever is later;

(2) The applicant complies with the other provisions of this § 922.49;

(3) The Director notifies the applicant and authorizing agency that he or she does not object to issuance of the authorization (or amendment, renewal, or extension); and

(4) The applicant complies with any terms and conditions the Director deems reasonably necessary to protect Sanctuary resources and qualities.

(b) Any potential applicant for an authorization described in paragraph (a) of this section may request the Director to issue a finding as to whether the activity for which an application is intended to be made is prohibited by subparts L through P, or subpart R, as appropriate.

(c) Notification of filings of applications should be sent to the Director, Office of Ocean and Coastal Resource Management at the address specified in subparts L through P, or subpart R, as appropriate. A copy of the application must accompany the notification.

(d) The Director may request additional information from the applicant as he or she deems reasonably necessary to determine whether to object to issuance of an authorization described in paragraph (a) of this section, or what terms and conditions are reasonably necessary to protect Sanctuary resources and qualities. The information requested must be received by the Director within 45 days of the postmark date of the request. The Director may seek the views of any persons on the application.

(e) The Director shall notify, in writing, the agency to which application has been made of his or her pending review of the application and possible objection to issuance. Upon completion of review of the application and information received with respect thereto, the Director shall notify both the agency and applicant, in writing, whether he or she has an objection to issuance and what terms and conditions he or she deems reasonably necessary to protect Sanctuary resources and qualities, and reasons therefor.

(f) The Director may amend the terms and conditions deemed reasonably necessary to protect Sanctuary resources and qualities whenever additional information becomes available justifying such an amendment.

(g) Any time limit prescribed in or established under this § 922.49 may be extended by the Director for good cause.

(h) The applicant may appeal any objection by, or terms or conditions imposed by, the Director to the Assistant Administrator or designee in accordance with the provisions of § 922.50.

[62 FR 4608, Jan. 30, 1997, as amended at 65 FR 39056, June 22, 2000]-

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