



City of Richmond

Report to Committee

To: General Purposes Committee **Date:** January 18, 2010
From: Cathryn Volkering Carlile **File:** 08-4150-03-01/2010-
 Vol 01
Re: Additional Hotel Room Tax and Future Local Tourism Funding

Staff Recommendation

That a letter be sent to the Minister of Finance, the Minister of Tourism, Culture and the Arts and UBCM, providing comments on current local tourism funding scenarios, as outlined in the attached staff report dated January 18, 2010.

Cathryn Volkering Carlile
General Manager - Community Services
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Att. 5

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Staff Report**Origin**

Since 1999, the City of Richmond has been collecting Additional Hotel Room Tax (AHRT) revenues and distributing them to Tourism Richmond for the purposes specified in the AHRT provincial legislation for Richmond. Between 2004 and 2009, the City has been through a full cycle of the AHRT and in February 2009, a joint application from Tourism Richmond and the City was submitted to the Province to renew the AHRT for another five-year cycle. Support for the provincial legislation came from the Richmond hotels, regional tourism industry stakeholders and the City of Richmond, as outlined in the requirements for imposition of the 2% AHRT. In addition, the application for this new AHRT cycle was supplemented by an official Agreement between Tourism Richmond and the City, which aimed to enhance the working relationship between Richmond's Destination Marketing Organization (DMO) and the City, including:

- Clear definition of the roles and responsibilities of the DMO and the City in working towards advancing Richmond as a destination
- Use of AHRT and a mechanism for distribution of funds to take advantage of specific destination-building opportunities, such as the 2010 Olympic Winter Games and a proactive Richmond Sport Hosting Strategy
- Deliverables, accountability principles and reporting requirements

Since then, the Province has folded back Tourism BC into the Ministry of Tourism, Culture and the Arts and has initiated a review of the current provincial/local tourism funding network and a stakeholder consultation process to determine what the future tourism funding network in BC will look like. Meanwhile, to ensure funding continuity for local DMOs, the Province issued Orders In Council (OIC) to approve AHRT until June 30, 2010 and, subsequently, extended the expiry date of the OIC to June 30, 2011.

In late December 2009, the Province issued a Green Paper (*Attachment 1*) with results from stakeholder consultations to date and a likely model for future funding of the BC tourism network. On January 6, UBCM issued a member release (*Attachment 2*) largely in support of the Green Paper model and urging municipalities to submit comments to the Province.

Analysis

The analysis below includes:

- Summary of AHRT consultations to date
- Three main tourism funding scenarios developed as a result of consultations to date
- Analysis of the 3 scenarios that have emerged to date, including advantages and disadvantages from Richmond's point of view
- Recommended comments to be submitted to Province and UBCM
- Next steps

AHRT Consultations to Date

In the spring of 2009, the Province signalled the need for review of the tourism network in BC by absorbing Tourism BC back into the Ministry of Tourism, Culture and the Arts and by introducing the Harmonized Sales Tax (HST). Both actions profoundly influence tourism at the provincial and local level and the Province launched consultations with all stakeholders to explore funding options for tourism. After initial consultation on the effectiveness of the current AHRT model, carried out by the Ministry of Finance to AHRT-receiving local governments, the Province tasked the Ministry of Tourism, Culture and the Arts with carrying out broader consultations, including hoteliers, tourism industry associations, and local government associations. (A detailed summary of consultations to date is included in *Attachment 3*.)

Local Tourism Funding Scenarios

Through the above consultation process, 3 distinct models for funding local tourism have emerged, with key parameters for each model included below:

Key Parameters	Current Model: <i>Additional Hotel Room Tax (AHRT) Model</i>	Proposed Tourism Industry Model: <i>Destination Marketing Fee (DMF) Model</i>	Proposed Province Model: <i>Enhanced Additional Hotel Room Tax (EAHRT) Model</i>
Tax vs. Fee	Tax	Fee	Tax
AHRT Requirement	51% of hotels with 51% of hotel rooms	51% of hotels with 51% of hotel rooms	51% of hotels with 51% of hotel rooms
Applicant	Local Government <i>or</i> DMO	DMO only	Joint Local Government-DMO
Revenue Collection and Disbursement	Ministry of Finance	Ministry of Finance	Ministry of Finance
Flow of Funds	Ministry of Finance to Local Government to DMO	Ministry of Finance to DMO	Ministry of Finance to Local Government to DMO
Reporting	Ministry of Finance	DMO Boards Tourism Industry Sectors	Ministry of Tourism, Culture and the Arts
Sectors Involved	Accommodation Only	All Tourism	Accommodation Only
Rate (% of Hotel Room Price)	Up to 2%	1% to 4% DMF	1% to 4% AHRT
Renewal	Varies	Unknown	Standard 5-year
Penalties	None	Unknown	Set out in Regulation

At a recent meeting between Tourism Richmond and the City, the Provincial representative presented the parameters of the EAHRT model. The Provincial representative also re-enforced

the Province's desire to strengthen accountability in the tourism network and continue to involve local government in both the funding flow and reporting processes to achieve that.

Analysis of Scenarios

Option 1: Current Additional Hotel Room Tax (AHRT) Model¹

The current AHRT model has proven effective for Richmond, as it has the following advantages:

- Shifts financial burden of local tourism development from the taxpayer to the visitor
- Provides a mechanism for funding the development of local tourism based on market forces and not subsidies (when tourism grows, funding grows and vice versa)
- Supplies significant funding for the tourism sector, as it is based on number of rooms, which are many in Richmond
- Hoteliers can measure and directly see the results from the use of AHRT funds through DMO Board participation

The current AHRT model in Richmond has the following disadvantages:

- Reduces capacity of the community to target day visitors
- Raises absolute cost of accommodation and puts margin pressure on hoteliers (however, it should be noted that all local and international jurisdictions follow such practice, hence the comparative cost remains the same)
- Focuses largely on filling beds and not on growing other sectors of tourism which may be of priority to the Community

Option 2: Proposed Destination Marketing Fee (DMF)²

The DMF Model proposed by the tourism industry has the following advantages for Richmond:

- Direct flow of funds from Province to DMO reduces revenue administration, financial management and reporting burden on Staff
- Involvement of other tourism sectors, , beyond accommodation, in local tourism funding allows for broader, more holistic consideration of community tourism objectives, not just filling beds
- Variable rate of 1% to 4% more realistic to address the needs of various communities, for example communities with fewer hotel beds may opt to collect higher rate to secure an appropriate level of tourism funds

The DMF Model proposed by the tourism industry has the following disadvantages for Richmond:

¹ Staff feedback to the Province on the current AHRT Funding Model is enclosed in *Attachment 4: "AHRT Consultations – Survey Response (Richmond)"*

² The proposed DMF Funding Model is articulated in the enclosed *Attachment 5: "Conceptual Framework to Replace the Additional Hotel Room Tax with a Destination Marketing Fee"*

- Direct flow of funds from Province to DMO bypasses local government and does not link hoteliers to the community at large, and tourism initiatives to broader community planning
- Capacity for AHRT accountability, financial management, auditing and reporting reduced under direct flow through of funds from Province to DMO

Option 3: Proposed Enhanced Additional Hotel Room Tax (EAHRT)³

The EAHRT Model proposed by the Ministry of Tourism, Culture and the Arts has the following advantages for Richmond:

- Visitors and not taxpayers continue to fund local tourism development
- Long-term industry development based on market forces and not subsidies
- Source of significant local industry funding compared to other methods, such as memberships
- The approving entity—hoteliers—can directly monitor the results through the DMO reporting process
- Proposed 1% to 4% tax range, approved by hoteliers in the community, allows for more flexibility in balancing hotel room costs with tourism budgets
- Standard 5-year approval term streamlines application and renewal process
- Maintenance of current revenue delivery model, including collection, administration and disbursement, simplifies transition
- Shifting responsibility for approval, expenditure policies, reporting, monitoring and renewal to the subject matter ministry – the Ministry of Tourism – strengthens the EAHRT accountability process and secures a higher level of program oversight
- Legislated penalties increase compliance

The EAHRT Model proposed by the Ministry of Tourism, Culture and the Arts has the following disadvantages for Richmond:

- Does not enforce a unified tourism strategy, including the input from local government, hoteliers and DMO
- Increased cost of oversight

Recommended Comments to Province and UBCM

Based on the advantages and disadvantages of each of the three funding scenarios outlined above, Staff recommend that council submit a letter to the Ministry of Finance, Ministry of Tourism, Culture and the Arts and UBCM, including the following recommendations:

- Funding of local tourism continues to be through a voluntary tax
- Hotelier community to continue approving tax renewal

³ The Enhanced Additional Hotel Room Tax Funding Model is articulated in the enclosed *Attachment I*: “Green Paper on B.C.’s Destination Marketing Network: Funding and Structure”

- Application process to continue including both local government and DMO, with a bylaw required to enact OIC legislation where DMO has not been designated as an eligible entity by local government
- Ministry of Finance to continue collecting and disbursing the tax revenue
- Flow of funds continues to be through local government to DMO, to ensure local government retains its voice in local tourism management and marketing delivery, ensure greater transparacy in spending tax dollars.
- Provides a streamlined process and ensures accountability.
- DMO reporting and business plan review to shift from Ministry of Finance to the subject matter Ministry of Tourism, Culture and the Arts
- Accommodation to continue being the sole tourism sector involved
- Tax rate percentage range to be extended from up to 2% to 1% to 4% and appropriate rate to be approved by hoteliers
- Renewal to be standardized on a 5-year cycle

Next Steps

The Ministry of Tourism, Culture and the Arts was required to submit its recommendation to the BC Minister of Finance by January 15, 2010. It is expected that the Province will produce a legislative decision in the 2010 Spring Session. At that stage, the Agreement between Tourism Richmond and the City needs to be reviewed for compliance and potential updates under the anticipated new Provincial legislation.

Financial Impact

None at this time.

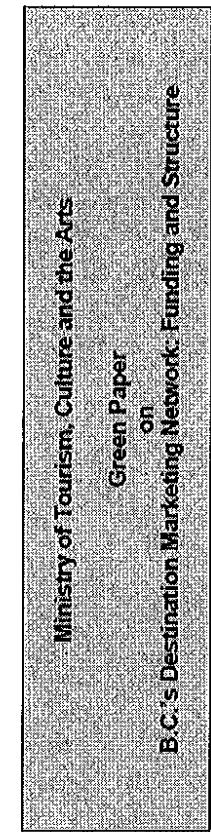
Conclusion

Based on recent consultations with local tourism stakeholders, there are three scenarios for future funding of local tourism. It is recommended that Council submit a letter with the recommended comments on the three scenario to the Ministry of Finance, the Ministry of Tourism, Culture and the Arts and UBCM.

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- Kootenay Rockies Tourism Association
- Caribbean Coast Tourism Association
- Northern British Columbia Tourism Association
- 3) Community Destination Marketing Organizations (CDMO): 37 marketing organizations representing 41 approved AHRT communities in BC.

The PDMO is the provincial government entity that is responsible for tourism development and promotion for the Province of B.C. as a domestic and international tourism destination. Funding is provided through voted appropriation and the PDMO has a fiduciary responsibility (via the *Tourism Act*) for most aspects of tourism throughout the province.

The RDMOs are a network of six regional tourism associations registered under the Societies Act and each is managed by a regional Board of Directors. The RDMOs are funded under contract with the PDMO to deliver various tourism programs, to the benefit of tourism stakeholders within their respective regions.

The CDMOs are an extensive network of communities (large and small) located throughout the province that promote tourism at the community level. The community marketing effort is currently funded in part through the Additional Hotel Room Tax (AHRT) at up to 2% of accommodation fees charged by accommodation providers. As the AHRT is a municipal tax option, local governments, in cooperation with local tourism businesses, apply to the provincial government for approval to implement the tax and apply revenues to planned tourism marketing initiatives. The *Hotel Room Act* contains provisions for the AHRT.

Current Destination Marketing Organization (DMO²) Network

BC's Destination Marketing network consists of:

- 1) The Provincial Destination Marketing Organization (PDMO): a responsibility and function of the Ministry of Tourism, Culture and the Arts.³
- 2) Regional Destination Marketing Organizations (RDMO): The six regional tourism marketing organizations are:
 - Vancouver, Coast and Mountains Tourism Association
 - Vancouver Island Tourism Association
 - Thompson Okanagan Tourism Association

² Government announced that the additional hotel room tax levied under the Hotel Room Tax Act would be extended until June 30, 2011 to allow the constitution of the future of the tourism Destination Marketing Organizations (DMOs) may include non-profit societies, local municipal government, regional districts or provincial ministries/agencies that are identified as an eligible entity and are engaged in developing and/or delivering tourism marketing and management activities.

³ This act amends section 10 of the Tourism Act. The Minister of Tourism is also the Minister of the Crown Corporation PDMO.

The Consultation Process

Starting in September 2009, there have been a series of consultative meetings between government ministers and officials from the Ministry of Finance, MTCA and Ministry of Community and Rural Development and various tourism sector associations interested in the structure and funding of tourism marketing in B.C. Position papers were also produced and presented by several groups including the BC Hotel Association (BCHA), the BC Council of Tourism Associations (COTA), the BC DMO Association (BCDMOA), the BC Lodging and Campground Association (BCLCA), the Regional DMOS and the Union of BC Municipalities (UBCM). In addition, government received numerous calls and letters from individual tourism businesses, associations, CDMOs, RDMOs and local government.

Ministers agreed that MTCA would lead extended consultations on Destination Marketing network issues with the tourism industry and communities.

MTCA undertook a joint industry-government DMO Forum in Vancouver on October 28, 2009, which brought together over 40 senior leaders from organizations representative of the

segments of B.C.'s tourism industry most engaged with our DMO network. Given the range of varying positions/interests just within the tourism industry itself, it was agreed that this first forum would seek participation from all levels of DMO (PDMO, RDMO and CDMO) from all regions of the province, the accommodation sector (via BCHA and BCLCA) and the broader

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tourism business community (via COTA). The Forum succeeded in gaining key collective input from the tourism sectors regarding the funding and structural challenges/opportunities facing B.C.'s Destination Marketing network, building better mutual awareness of issues and timing for government decisions, and testing some preliminary option ideas from MTCA/Tourism BC.

At the conclusion of the October forum, MTCA made a commitment to involve options and models and seek further stakeholder feedback before finalizing recommendations for ministers. MTCA wants to build on the success of the first Forum and hold a second DMO forum in Richmond on January 6, 2010*. This Green Paper is intended to focus joint discussions at the forum to gain feedback on, and gauge support for, MTCA's analysis and preliminary conclusions, including a potential model for DMO network funding and structure.

On December 16, 2009, MTCA officials briefed the Minister's Council on Tourism about the ministry's observations, analysis and draft conclusions to date that were going into the Green Paper. The ministry received very constructive advice and feedback from the council which has helped refine this discussion paper.

MTCA is distributing the Green Paper to all participants of the October DMO Forum (report from the First Forum is available from john.yellow@gov.bc.ca), the Chairs and CEOs of all PDMOs and CDMOs in BC, the councils/mayors of all 41 approved AHRT communities, the leadership of key associations including COTA, BCHA, BCDMOA, BCLCA, ABC and the UBCIA, and officials in the Ministry of Finance (MFIN) and the Ministry of Community and Rural Development (MCRD).

The Minister of Tourism, Culture and the Arts has been asked to present their recommendations on destination marketing network funding and structure to the Minister of Finance by January 15, 2010. The Minister of Finance is responsible for all decisions related to tax policy and administration.

Aim of This Green Paper

The aim of this discussion paper is to:

- Share MTCA's research, analysis, preliminary conclusions, and potential model for Destination Market network funding and structure.
 - Provide a focus for joint discussions at the January 6, 2010 consultation Forum
 - Seek feedback and gauge support for proposed changes from key stakeholders which will inform MTCA's final recommendations to the Minister of Finance.
- Specifically, this paper helps to:
- Summarize key feedback/ideas received on issues and options;
 - Identify any additional facts/data that have informed our analysis;
 - Set out MTCA's assessment of issues and ideas, their potential implications and our preliminary conclusions;

* MTCA officials will be working with a sector working group to organize the independently facilitated January Forum, develop the agenda and confirm participation levels.

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- Set out what MTCA views as practical options and models, given the collective analysis to date, with more mid-level detail; and,
- Identify those components where MTCA is seeking further input on multiple options.

Section 1: MTCA Analysis & Preliminary Conclusions

Based on MTCA's inter-agency and stakeholder consultations to date, the following analysis and preliminary conclusions have been reached.

1.1 Range of Funding Options

- The funding solution must recognize that B.C.'s destination marketing network is composed of three distinct but linked components:
 - The Ministry of Tourism, Culture and the Arts as the provincial DMO (PDMO);
 - Six not-for-profit regional DMOs (RDMOs); and,
 - Thirty-seven not-for-profit community DMOs⁵ (CDMOs) which function on behalf of the 41 local communities throughout BC that have been approved to collect and utilize the 2% Additional Hotel Room Tax (AHRT) revenues for tourism marketing.
- After considering potential options for DMO funding mechanisms, it has become apparent that no single option is available that will meet the long term funding needs of all three levels of DMO in B.C. (e.g. provincial, regional and city/community). Therefore, a "hybrid" solution is being proposed, which has separate mechanisms for:
 - The PDMO and six RDMOs; and
 - AHRT municipalities and associated community/city DMOs.
- A conceptually attractive option would be to fund the DMO system from a fixed percentage of the new HST revenue stream generated by the tourism sector. However, this option has a very low likelihood of approval (from both federal and provincial governments), and was therefore dropped from consideration.

1.2 Is it 'a Tax' or 'Fee'?

- Any funding mechanism for CDMOs that is similar to the AHRT is to be considered a "tax" and not a fee or levy.
- The current AHRT is a municipal tax collected by local accommodation providers which remit the tax directly to MFIN which serves as a collection agent for the local government.

⁵ Some CDMOs operate on behalf of more than one approved constituency (e.g. Oceanwide Tourism Association, Tourism Langley, and Vancouver's North Shore Tourism Association).

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- Depending on the degree of regulatory changes proposed, it may be possible (and practical) to retain the “AHRT” name for renewed/updated funding program.
 - Broad sector support exists to expand the AHRT’s sliding scale from current 1% to 2% tax to a range of 1% to 4%.
 - Effective July 1, 2010, the AHRT and any other additional tax on accommodation will be subject to the 12% HST (e.g., room charge of \$150 + 4% AHRT = \$166 + 12% HST = \$174.72 charged to the consumer)
 - AHRT funding and other DMO funding derived from government tax revenues is to be used for marketing activities that benefit all tourist sectors/businesses in the DMO’s geographic area.
- 1.3 Who Votes to Implement Incremental Tax**
- Opening the AHRT program to other tourism sectors is not practical at this time.
 - It will complicate administration and associated costs of the program.
 - In most communities and for most other tourism sectors, broadening the tax base beyond accommodations would result in only modest gains in revenues.
 - Initial application to collect the tax, or as required for any reapplication or renewal, should continue to require majority support (51% of rooms and 51% of establishments) from local fixed roof accommodation providers as currently defined in the AHRT (e.g., designated accommodation providers with four or more rooms).
 - Given the added 7% in tax that will be paid on campground stays under the HST, campgrounds should remain outside the AHRT definition of eligible accommodations both for voting and collection of the incremental tax.
- 1.4 Tax Range and Scope**
- The fixed roof accommodation sector collects the AHRT on behalf of municipal government and all local tourism businesses.
 - New HST will utilize GST rules; therefore, all businesses generating \$30,000 or more in gross revenues will have to collect and remit HST.
 - Ministry of Finance currently retains a small fee for collecting and remitting the tax revenues on behalf of local governments, as per legislation.
 - Consideration should be given to applying the HST threshold (\$30,000 annual gross revenues) to the AHRT for purposes of identifying which fixed room accommodation businesses must collect the AHRT once the tax is approved for that municipality. This would:
 - Provide a level playing field for accommodation providers
 - Lead to reduced red tape, and

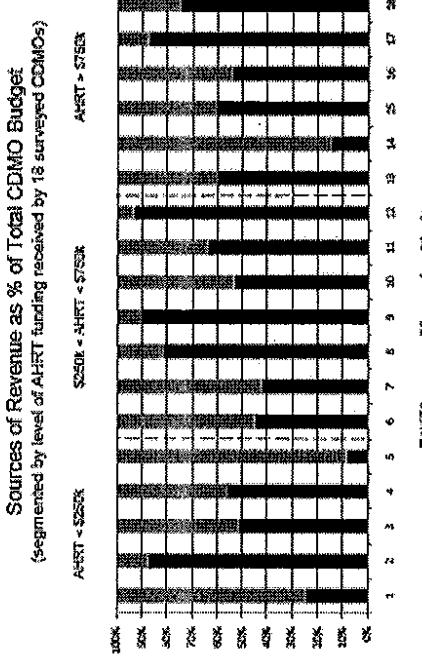
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- Achieve a higher consistency in the application of taxation policy.
- Should maintain the current AHRT exemption for room stays of 30 days or longer; the same exemption will apply to the new HST.

1.5 Leveraging the Tax Funding

- Most CDMOs are successfully leveraging their AHRT dollars and expanding the financial resources available to them within their annual budgets.
- The leverage ratios for all 18 CDMOs surveyed (representing 22 AHRT communities) ranged from virtually no leveraging of AHRT dollars (0.1 to 1) to a high of 11.3 to 1 (e.g., the CDMO secured \$11.30 in additional revenues for every \$1.00 of AHRT funding).
- Even with a strong trend among CDMOs to secure additional revenues, MTCAs recent CDMO survey showed that AHRT revenues are extremely important so all sizes of CDMOs based on amount of AHRT funding received (see figure 1). Findings show:
 - Over 70% of CDMOs (13 of 18) had total budgets where AHRT revenues accounted for more than 50% of their total revenues.

Figure 1

**1.6 Practical Threshold for Small DMOs**

- An issue raised by several stakeholders, including government, was that in some cases smaller CDMOs may be spending a disproportionate amount of AHRT funds on

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- overhead, salaries and general administration (O&A) which significantly diminishes the amount of funding available to actually do marketing.
- There appears to be mixed support for the idea of setting a minimum threshold size of CDMO depending on what the metric might be (e.g. level of AHRT funding, level of CDMOs total revenues, or what percentage of revenues are dedicated to O&A).
- Figure 2 shows us that 45% (8) of the 18 CDMOs surveyed by MTCA received more than \$500,000 in AHRT funding in 2008. However, when all sources of reported revenues are taken into consideration (e.g. total budgets), 67% or 12 of those same 18 CDMOs now had available total revenues in excess of \$500,000.

Figure 2

2008 Revenue Comparison For Surveyed CDMOs (n = 18 CDMOs representing 22 AHRT communities)		
Revenue Range	Total CDMO Revenues	AHRT Revenues Only
< \$100 K	1	0
\$100 K to < \$250 K	4	3
\$250 K to < \$500 K	5	3
\$500 K to < \$750 K	2	4
\$750 K to < \$1 M	1	1
> \$1 Million	5	7

- The option of setting a threshold based only on the level of AHRT revenues as a municipality/CDMO receives appears arbitrary and impractical. If the intent is to enable and encourage all DMOs to seek partnership funding to augment tax funding, any threshold for efficient operation and maximizing marketing spend should be focused on the total revenues available to the DMO and not just the tax-based revenue.
- It has been suggested that a potential threshold for O&A expenditures as a function of a CDMO's total revenues/budget should be in the order of 25%.

- However, practical consideration must be given to the stage at which a DMO is at in its operating life; typically start-up and expansion phases require higher investments in O&A than if the organization is in a mature and steady operations mode.
- Is 25% a realistic threshold? Reviewing a sample of budget reports from seven CDMOs⁶ indicates that O&A expenses⁷ ranged from 21% and 25% (for a small and a medium sized CDMO respectively) to highs of 42%, 43% and 50% (for a medium, a large and a small sized CDMO respectively).

⁶ CDMO sample included: 2 small (total revenues <\$300k), 3 medium (\$300k to \$1 million) and 2 large (>\$1 million) organizations.

⁷ Included wages and benefits, admin., office costs, rent, board support, start-up, visitor and member services.

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- Another potential mechanism to encourage smaller CDMOs, or CDMOs that are in close geographic proximity, to opt for integrating their operations with another CDMO or their RDMO would be to offer some form of financial incentive. For example, MTCA/PDMO could provide a standing offer of additional financial contribution (such as a set percentage of annual AHRT revenues) to CDMOs who opt to fully integrate their operations with another DMO.

1.7 Flow of AHRT Funding

- The BCHA, BCDMO and COTA all supported the concept that future AHRT funding should flow directly from the provincial revenue agency to the DMOs, and local governments would no longer need to be responsible for the functions of financial administration, DMO business plan approval and annual reporting to the Province.
- Of 26 local governments (with AHRT) surveyed by MFIN this fall, 25 said they would want to continue to receive AHRT funds directly from the MFIN.
- MFIN and MTCA also received several letters from mayors/councils of AHRT communities stating they would be supportive of AHRT funding flowing directly to the CDMO.
- Currently the AHRT legislation empowers the applying/approved local government to have the option to designate an eligible entity to directly receive AHRT funds from MFIN and be accountable for the use of those funds as approved by the Province. Each specific entity is defined separately within regulation, and the below text is typical of the definition parameters generally used:

Qualification of Eligible Entities (to be specified for each municipality/area). An entity is qualified to be eligible to request that a regulation be made under section XXX of the Additional Hotel/Room Tax Act if the entity

- is a not-for-profit business association,
- has a place of business in the (City or Municipality or Resort Area or Regional District) of _____ and _____;
- engages in tourism marketing on behalf of the (City or Municipality or Resort Area or Regional District) or _____ as well as tourism programs and projects in the (City or Municipality or Resort Area or Regional District) of _____.

- Several local governments have opted to designate their CDMO as an eligible entity, and there are at least three cases where a CDMO is receiving AHRT funds front, and working on behalf of more than one approved municipality.
- At the October DMO Forum, some concern was expressed regarding the potential option of incremental tax funding for CDMOs flow through MTCA. There was a perception that as the ministry's priorities change, funding may potentially be diverted away from approved AHRT communities and/or CDMOs for other purposes.

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- Therefore, with respect to the flow of dollars from any enhanced AHRT mechanism:
 - MFIN should continue to serve as agents for municipal governments and collect and remit AHRT revenues directly to the local government or the designated eligible marketing entity as set out in regulation, and
 - Local governments should be encouraged to designate an eligible entity (CDMO) to receive directly from MFIN any AHRT funding generated in the area, and
 - Approved CDMO eligible entities, on behalf of the municipality and all tourism businesses in the area, would then be accountable to the province, the local government and local tourism businesses for the use of AHRT funds.

- 1.8 Ensuring AHRT Dollars are used for Tourism Marketing
 - Numerous stakeholders identified that the following linked issues within the current AHRT system need to be addressed going forward:
 - Probability that not all of the AHRT dollars are being used for intended purpose of tourism marketing (e.g. not all AHRT funds are flowing through to the designated CDMO in all cases).
 - CDMO reporting requirements are not being consistently met/enforced, and there is only limited monitoring and/or assessment of whether the AHRT community and its CDMOs are actually doing what they committed to do when plan was approved by the provincial government.
 - Given the broad and complex mandate of MFIN, that agency may continue to have challenges in effectively fulfilling government's obligations for timely and transparent AHRT approvals, monitoring, assessment and renewals.
 - MTCAs, as lead tourism agency and PDMOs, is a logical choice to be responsible and ensure accountability for effective and efficient use of taxpayer dollar provided to approved municipalities and CDMOs via any form of AHRT legislation.
 - MFIN is supportive in principle of this change, provided it remains clear that the Minister of Finance is responsible for tax policy decisions and administration.
 - Assuming this responsibility will be an added operational cost for MTCAs, one that should not be cost-recovered from AHRT funds.
 - MTCAs is willing to assume role of agency responsible to Treasury Board for AHRT approvals, policy, monitoring/reporting, renewals, etc.

- 1.9 DMO Governance
 - All CDMOs and RDMOs currently in operation are incorporated as not-for-profit legal entities under the BC Societies Act and as such are governed by Boards of Directors, have formal charters and bylaws, must meet legal and financial reporting requirements, and have developed supporting policies and practices.

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- All DMOs are influenced by the business and market dynamics in their own regions, must deal with different product mixes and local sector make-up and have varied partnership arrangements. Therefore, a cookie cutter approach to DMO governance is not practical.
 - It is also apparent that not all DMOs are functioning as smoothly or effectively as others. Some of this has to do with what stage of development the DMO is in, other times local differences of opinion between member sectors complicate the situation. However, it is clear that some DMO Boards are functioning very effectively and have the full support of their members.
 - Every effort should be made to identify those governance "best practices" and share them with all DMOs
 - There may be some governance practices/protocols that are universal or deemed essential that could be set out in regulation or policy
- Most effective DMO Boards strive for a balance between:
 - Membership based on representation (of local tourism stakeholders) and membership based on governance competencies and experience; and;
 - As DMOs are working on behalf of all tourism businesses within their area or region, no one sector should dominate the make-up of a Board or Directors
 - Being a governance/policy Board providing strategic direction and oversight, and being an operational Board ensuring the DMO's plans and actions are effective and supported by the members.
 - Key stakeholders that have a significant vested interest and should be assured representation on DMO Boards include:
 - Local governments which are a key program partner beyond the fact the AHRT funding is municipal tax. Over 80% of the 18 CDMOs surveyed had at least one board seat for local government.
 - Local hoteliers which are usually the largest single tourism business sector in the area, and being the collectors of the tax on behalf of municipalities and other businesses has an impact on their price point with consumers.
- 1.10 Term of AHRT Approval and Process for Renewal
 - The current AHRT requires all post 1997⁸ approved municipalities to apply for a renewal of term every five years, which includes the requirement to undertake a new vote among accommodation properties so as to confirm support (51% of rooms and 51% of establishments with 4 or more rooms).
 - Six municipalities and one CDMO have been exempted the requirement to renew 2% AHRT approvals every five years. The 'grandfathered' entities: Tourism Vancouver and the municipalities of Oak Bay, Prince Rupert, Saanich, Smithers, Victoria and Whistler.

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- Widespread (but not universal) support for the continuation of a set term for review and renewal for all CDMOs, but need to build in more flexibility to enable organizations to enter into longer term contractual commitments and/or adapt as required to accommodate special circumstances.
- Although a fixed term (likely 5 year) will likely be retained, the legislation and/or regulation should consider some form of "auto-renewal" or "rolling approval" provision that would facilitate automatic renewal for a continued term.
 - MTCA would engage directly with the AHRT municipality (or its eligible entity) regarding renewal process and information requirements.
 - Would require a clear set of pre-conditions, such as:
 - annual reports submitted on time and are complete (standard minimum requirements will be established)
 - business plan implemented as approved
 - degree of integration with RDMO and/or PDMO planstops
 - degree of satisfaction among local tourism businesses (i.e., may need sufficient support from accommodation and other tourism businesses to continue).
 - local hotel occupancy staying above a certain minimal threshold
 - possible other performance measures
 - Prior to making its decision on renewal, MTCA should:
 - Consult with key stakeholders (RDMO, local industry associations, etc.)
 - Refer applications for renewal to key ministries as appropriate (e.g., MFIN and MCD) as well as the local municipality (where the application for renewal is being made directly to MTCA by a designated eligible entity). Input from these referrals would be used to inform MTCA renewal decision.
- Such a renewal provision is more business friendly and may serve as an incentive for diligence in reporting, evolution of marketing plans, leveraging of tax funds, alignment of marketing efforts with other levels of DMOs, etc.
- In order to create a level playing field, term renewal provision should apply to all CDMOs, and therefore will need to consider removing the exemption status of the seven grandfathered entities.
- Performance metrics should also be considered in relation to the DMO's total revenue picture, not just the amount of AHRT revenues received.
- Failure to attain approval of auto-renewal from ministry would trigger requirement for municipality or eligible entity to undertake a vote among accommodation sector.

FOR DISCUSSION PURPOSES

Section 2: Proposed Guiding Principles

Guiding principles or characteristics for B.C.'s DMO network should be consistent (if not the same) at every level – PDMO, RDMO and CDMO.

Based on the constructive input and consultations to date, MTCA proposes that a linked set of core or key principles for DMOs include, but not necessarily be limited to, the following:

Funding Principles

- Formula driven: Clear funding formula using credible data and defensible assumptions.
- Performance based: Funding should be based on measurable industry performance (e.g., room revenues, gross domestic product, HST data, etc.).
- Predictable: Enables multi-year partnerships and agreements for marketing planning & operations.
- Transparent: Information about budgets and operations is clear to government and stakeholders.
- Efficient Administration: Is straight-forward and low cost for government and businesses to administer.
- Accountable: Ensures accountability for appropriate and responsible use of provincial and municipal tax dollars for tourism marketing.

Operating Principles

- Customer driven: Each level of DMO must be delivering the right message to the right traveller/tourist.
- Member focused: Tourism businesses within the DMO area will have the opportunity to provide input on marketing programs.
- Informed Decisions: Baseline data and analysis from research and market intelligence will continue to be collected by the PDMO to inform program decisions, investments and demonstrate success.
- Broad Benefits: Funding used to increase area visitation and/or spend to the benefit of all local tourism businesses, thus generating local jobs and a boost to area economies.
- Integration: Work to ensure all three levels of DMOs more fully integrate their marketing plans.
- Collaborative: More partnerships within and between community, regional and provincial levels are needed to enhance marketing alignment and integration.
- Flexibility: DMOs need to have the ability to change expenditure priorities, should market conditions change.

FOR DISCUSSION PURPOSES

Section 3: Probable Funding Model

Based on the above analysis, preliminary conclusions and suggested guiding principles, a practical funding option for our Destination Marketing network would be a hybrid model as proposed below:

Proposed Hybrid Funding Model for BC's Destination Marketing Network

Formula Funding for Provincial DMO & Regional DMOs [ALL NEW]	Formula Funding for Local Municipalities and Community DMOS
<p>Enhanced AHRT Program:</p> <ul style="list-style-type: none"> - Incremental municipal tax on fixed roof accommodations only (e.g. no other sectors). - Initial application to collect the tax, or as required for reapplication/renewal, will require majority support (51% of rooms and 51% of establishments) of the local fixed roof accommodation providers with 4 or more rooms and as currently defined. - Tax range 1% to 4% as determined by applicant jurisdictionality (NEW) - Standard term of 5 years for approval to collect the tax for all CDMOs, with no exceptions (NEW) - All fixed-roof accommodations, in approved AHRT community areas that reported annual gross revenues exceeding \$30,000 will collect and remit the additional room tax on behalf of the municipality and local tourism businesses. (NEW) - MFIN/Revenue Agency serves as agent for local government for revenue collection and return of tax revenue (net all commissions) to approved local government or designated eligible entity. - Clearer language to the effect that applicant or approved jurisdiction may designate another eligible entity other than the local government to directly receive AHRT funds from MFIN. (ADDED CLARITY) - Authority/responsibility/accountability for AHRT approvals, expenditure policies, reporting, monitoring and renewals to be the responsibility of the Minister of Tourism. (NEW) - Penalties for non-compliance to be set out in legislation or regulation. (NEW) 	

FOR DISCUSSION PURPOSES

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Formula Funding for Provincial DMO & Regional DMOs (NEW)	Formula Funding for Local Municipalities and Community DMOS (NEW)
<ul style="list-style-type: none"> - Also to be set out in AHRT program: <ul style="list-style-type: none"> o Guiding principles (NEW) o Application mechanism (ADDED CLARITY) o Process to confirm tax percentage and use mechanism among accommodation sector (ADDED CLARITY) o High level governance considerations (e.g., Boards of DMOs will have a minimum seat requirements for local government, hoteliers, area RDMOs....) (NEW) o Threshold range for maximum percentage of CDMOs total revenue expended on overhead and administration (NEW) o Progressive renewal process with provision for auto-renewal (NEW) - Supporting AHRT policies and best practices, the delegated responsibility of MTCA in consultation with MFIN, MCD and industry. (NEW) 	<ul style="list-style-type: none"> - Also to be set out in AHRT program: <ul style="list-style-type: none"> o Guiding principles (NEW) o Application mechanism (ADDED CLARITY) o Process to confirm tax percentage and use mechanism among accommodation sector (ADDED CLARITY) o High level governance considerations (e.g., Boards of DMOs will have a minimum seat requirements for local government, hoteliers, area RDMOs....) (NEW) o Threshold range for maximum percentage of CDMOs total revenue expended on overhead and administration (NEW) o Progressive renewal process with provision for auto-renewal (NEW) - Supporting AHRT policies and best practices, the delegated responsibility of MTCA in consultation with MFIN, MCD and industry. (NEW)

Section 4: Probable Destination Marketing Network Structural Model

Based on the overall analysis set out above and the proposed hybrid funding mechanism, MTCA proposes that a practical and progressive structural model for the Destination Marketing network would be as follows:

Ministry of Finance

- Ministry responsible for overall government budget process
- Ministry responsible for tax policy and administration
- Undertake AHRT revenue collection on behalf of local government and remission of locally collected revenues
- Disbursement of AHRT revenues generated in approved municipal area back to the local government or the formally identified legal entity
- Provide approved funding to MTCA for PDMO and RDMO planning and operations

Provincial DMO Level (Ministry of Tourism, Culture and the Arts)

- Ministry responsible for *Tourism Act* and supporting regulation(s)
- Ministry responsible for Provincial DMO planning and operations (to be defined)
- Establish and maintain multi-year contractual agreements with all RDMOs and the transfer annually of funds to RDMOs as per performance based formula and supporting policies
- Partnership destination marketing and management activities with RDMOs
- AS per enhanced AHRT program and updated *Tourism Act*, Ministry responsible and accountable for:
 - a) AHRT approvals and renewal decisions (referrals to MCD and other key agencies for input prior to minister's decision)
 - b) Receipt and assessment of annual DMO reports
 - c) Monitoring RDMO and CDMO performance
 - d) Overall DMO policies and protocols
 - e) Establish DMO performance measures/metrics
 - f) Identify and encourage adoption of DMO best practices
 - g) Reporting to Treasury Board on effective use of taxpayer dollars designated for tourism destination marketing and management

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- Facilitate and enable better integration and alignment of tourism marketing planning and operations within and between all DMO levels – PDMO, RDMO, Large City DMOs, Community DMOs and Resort Municipality DMOs.

- d) Meeting term renewal conditions

Regional DMO Level

• RDMO Board of Directors

- a) RDMO governance and policies
- b) Securing and renewing contract agreement(s) with MTCA/PDMO
- c) Setting strategic direction for RDMO in relation to PDMO marketing plans and operations
- d) Facilitate and encourage joint planning and operational partnerships with CDMOs within the region
- e) Establishment of committees as required
- f) Hiring of senior management staff
- g) Development and approval of annual operating budget
 - Monitor level of overall funding dedicated to overhead and admin
 - Seek to lever provincial funding to maximize effectiveness of destination marketing and/or management activities
- h) Approval of RDMO annual reports (for member stakeholders and public record)
 - i) Submit annual reports as per MTCA requirements to the Ministry, and
 - j) Any other responsibilities as set out in approved business plan

Community Level (Local Tourism Industry, CDMO and Local Government)

a) Pre-approval Stage

- Co-develop application for 1% - 4% AHRT in defined geographic region as per enhanced AHRT Act, regulation and supporting guidelines provided by MTCA.
- Undertake vote among fixed-roof accommodation businesses with 4 or more rooms and seek majority approval (e.g. 51% of room total capacity, and 51% of establishments).
- Identify the legal entity that will be responsible/accountable for:
 - a) receipt of net tax funds from MFN
 - b) Annual reporting to MTCA, CDMO members and stakeholders
 - c) Implementation of destination marketing/management plan

As of Dec 16, 2008

As of Dec 16, 2009

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Transition to Any New System

With the pending implementation of the HST in July 2010 and the desire to establish a destination marketing network that builds on current strengths and the lessons learned over the last 20 plus years, government will need to establish transition rules from the old system to the new one.

To be effective and ensure minimal disruption of DMO operations, there are a number of considerations that must be assessed and worked out including, but not limited to:

- Time it will take for government to establish supporting DMO policies and protocols
- How to maintain a staggering of AHRT terms for approved communities
 - Possibility of no renewal vote required if currently approved municipality/CDMO decides the AHRT tax rate will remain the same as in 2009 (e.g. 2%).
 - Collaborative mechanism to identify and share best practices

Successful AHRT term extended to 2020 without need for accommodation sector vote.)

- ii) Rolling Renewal: every year, MTCA to assess performance of CDMO as per some or all of the parameters set out in sub-section 1.10 and if those parameters are satisfied, MTCA would renew AHRT approval for next 5 years (e.g., for original approval granted in 2010 for 5 year term until 2015, successful review in 2011 would extend approval to 2016 without need for accommodation sector vote.)
- b) Agree to which governance of AHRT funding decisions and allocations at local level is set out in province-wide regulation/policy.
 - i) Mechanism to encourage/ensure efficient use of tourism marketing funds for marketing (sub-section 1.6);
 - ii) Threshold level based on AHRT revenue returned to municipality or eligible entity
 - iii) Threshold level based on total revenues available to municipality or eligible entity
 - iv) Threshold based on percentage of revenues (either AHRT or total revenues) devoted to overhead and administration
- v) Utilize an incentive based approach (e.g., financial incentive to CDMOs who opt to fully integrate their operations with another CDMO or RDMO.

3) Transition process considerations that need to be factored into any plans going forward.

MTCA has formed a Forum planning group to assist with the planning of the January 6th DMO Forum in Richmond, including development of the agenda for the day, the mix and balance of stakeholder representation, and reviewing any summary notes or report from the event prior to finalization. Senior representatives from the following groups/associations have agreed to be part of this working group: RDMOs, Large City DMOs, ECDMOs/CDMOs, Recruit DMOs, BCIA, COTA and UBCM. In order to make the forum as productive as possible, total number of participants from industry, local government and provincial ministries will be limited to 55.

Section 5: Consultation Process for Feedback on Green Paper

At the forum, MTCA will set the stage with an overview of the rationale behind the ministry's green paper and its key points. An independent facilitator will then provide participants an opportunity for interest-based discussion aimed at:

- 1) Gaining feedback and advice on MTCA's preliminary consultations and proposed models
- 2) Within the proposed model, there are some options for specific mid-level elements that require further consideration and discussion. MTCA will be seeking feedback on options for the below elements:
 - a) Standard AHRT term length and renewal provision options:
 - i) Auto-renewal: MTCA assesses renewal of 5 year term in year 4 as per parameters outlined sub-section 1.10 (e.g., for original approval granted in 2010 for 5 year term until 2015, renewal process undertaken in 2014 and if



MEMBER RELEASE

UBCM Response to DMO/AHRT Green Paper

To: Administrators of local governments currently receiving AHRT
 From: Gary MacIsaac, Executive Director
 Date: January 6, 2010

On January 4, 2010, UBCM staff reviewed the *Green Paper on BC's Destination Marketing Network: Funding & Structure* prepared by the Ministry of Tourism, Culture & the Arts. In general, we felt the Additional Hotel Room Tax (AHRT) mechanism described in the Green Paper demonstrates a commitment to retaining the voice of local government in local tourism marketing delivery.

The paper provides clear direction that the intent is to continue the AHRT as a tax that is, at least in the immediate future, collected locally through eligible accommodations, remitted from the Ministry of Finance to local governments and available to support local destination marketing organizations (DMOs) to effectively market their area or specific tourism product. As outlined in our previous submission to the Ministry of Finance, we believe the continued involvement of local government helps to ensure the AHRT is an accountable process and we were pleased to see this echoed in the Green Paper.

However, we do have concerns about the level of local government involvement in the consultation process to date as well as concerns about a number of the enhancements that have been proposed in the Green Paper. These include:

- Inclusion of guiding principles that appear to have been brainstormed for the overall structure and funding of the DMO Network in BC – and not specifically for the application of the AHRT or community DMOs;
- The apparent desire to encourage local governments to designate an eligible entity and to move towards more regionalized tourism marketing;
- Removal of grandfathered status for communities that are not currently required to renew their AHRT application, and;
- Creation of thresholds for administrative costs.

As you may know, a forum has been planned for January 6, 2010. Due to the late notice of this meeting, UBCM staff are not able to attend. We have however requested a subsequent meeting with the Ministry of Tourism, Culture & the Arts.

The Ministry has stated that they are required to submit their recommendations to the Minister of Finance by January 15, 2010. If you have not done so already, we would encourage you to review the Green Paper and submit comments directly to the Minister of Finance and the Minister of Tourism, Culture & the Arts.

Please copy your comments to UBCM to help staff continue to work with the Ministry of Finance to develop a solution that recognizes and values the important role local governments play in local tourism marketing.

For more information or to submit comments or feedback, please contact:

Danyta Welch, Policy & Programs Officer
 (250) 356-5193
dwelch@ubcm.ca

Tourism Funding Model – Consultations to Date

Who	Stakeholder(s) Consulted	When?	Medium	Outcome	Richmond Consultation
BC Ministry of Finance	Municipalities	October 2009	E-mail survey: AHRT Consultations	Current AHRT model assessment	City Staff email to province in support of AHRT model and suggestions for improvement
Council of Tourism Associations BC Hotels Association BC DMO Association	Hotel Industry Local DMOs	November 2009	Unknown	Destination Marketing Fee (DMF) proposal	Tourism Richmond letter to province in support of DMF
UBCM	Representative sample of membership	December 2009	Unknown	Support for current AHRT model	UBCM letter to province in support of current AHRT funding model
BC Ministry of Tourism, Culture and the Arts	All stakeholders, including UBCM and Hotel Associations	December 2009	Stakeholder Forums	Green Paper for Discussion and Feedback	Proposed Enhanced AHRT Funding Model reviewed and evaluated
UBCM	Membership	January 2010	Letter to AHRT local governments	Overall support for proposed Enhanced AHRT Funding Model	Letter to province in support of Enhanced AHRT Funding Model solicited

Attachment 4

AHRT Consultations – Ministry of Finance Survey of Local Governments – Richmond Response

1. Is the additional hotel room tax (AHRT) an effective program for funding local tourism development? Why or why not?

Background: Our community has been through a full 5-year cycle of the AHRT and, considering the mostly effective outcomes, has renewed the AHRT for another cycle.

AHRT has been effective because:

- It has shifted the financial burden of local tourism development from the municipal taxpayer to the visitor.
- It has provided a means to fund the development of a local industry based on market forces and not subsidies (when tourism grows, funding grows and vice versa)
- AHRT has supplied significant funding for the tourism sector as it is based on a significant number of accommodation rooms
- Hoteliers can measure and directly see the results from the use of the AHRT funds

AHRT has been less than effective because:

- It eliminates the opportunity to target day visitors
- It raises the cost of accommodation and puts margin pressure on the hoteliers
 - It focuses the DMO on filling rooms and not on growing other sectors of tourism of priority for the Community

2. Could the AHRT be improved? If yes, how?

AHRT can be further improved by:

- Replacing the AHRT with the 3% Tourism BC tax to reduce price and margin burden on hoteliers
- Requiring communities, DMOs and hoteliers to arrive at, sign and propose a singular long-term tourism strategy for the community that takes into account best interest of the entire community, not just hoteliers

3. Are there better alternatives to the current program? If yes, what are they and why?

As a singular source of funding, not for our community. There are several other funding models, such as municipal funding, business levies, membership-based

funding, Provincial programs, earned revenue, etc. All of these have advantages and disadvantages but most of them serve as smaller, additional rather than principal revenue sources. To pursue Richmond's aggressive tourism growth strategy, tied to sport hosting and major events, our community needs the level of funding secured by the AHRT.

4. Some concerns have been expressed about how the local tourism marketing revenues are spent. Regardless of the funding model, should there be more stringent rules or guidelines regarding how the funding can be spent?

Yes. Spending on major strategic multi-year community tourism programs should be part of and built into the legal framework of the funding relationship. An option here is for the **AHRT legislation to require a formal contractual relationship between the DMO, and Municipality**, delineating roles, responsibilities, reporting relationships and reporting outcomes.

5. Should DMOs be more accountable to local governments and the accommodation sector for spending and business plans?

Yes, an option here can be to have annual progress and financial reporting and feedback loop between the DMO and municipality as part of **formal contractual relationship between the DMO and Municipality**.

Attachment 5

October 27, 2009

Conceptual Framework to Replace the Additional Hotel Room Tax with a Destination Marketing Fee

Drafted by the COTA DMO System Working Group:
 Council of Tourism Associations
 BC Hotel Association
 BC Destination Marketing Organization Association

Background

The Additional Hotel Room Tax (AHRT) is a key fundamental funding mechanism for Destination Marketing Organizations in British Columbia. The future status of the Additional Hotel Room Tax (AHRT) is unclear with the upcoming introduction of the 12% Harmonized Sales Tax (HST). The AHRT has been extended to July 2011; however after that date, no plans have been confirmed.

After extensive consultations with the hotel industry, the British Columbia Hotel Association (BCHA) has developed a proposal to replace the AHRT with a new mechanism for funding DMO's so that they can continue to build and execute their sales and marketing strategies in an effective and seamless manner. DMO's play an active and critical role in strengthening and growing the tourism industry in BC and the hotel industry is advocating for a sustainable and long term funding model for DMOs. With careful consideration of the current economic backdrop and the financial restraints on Government, the BCHA acknowledges any stable & long term DMO funding model will likely involve support and participation by the hotel industry.

Travel & tourism will be impacted by introduction of the HST, as all of the previously PST exempt tourism related businesses will see a price inflation of between 4%-7%. In an industry that relies on discretionary spending, the HST will likely result in a decrease in consumer spending. The hospitality and tourism industries are already facing challenging times due to the current global economic recession and, looking ahead, the forecast remains challenging.

Pretext

- When the 12% HST was announced on July 23, 2009 the 2% AHRT was scheduled to be eliminated on July 1, 2010.
- On Aug. 21, 2009, 28 days after the HST announcement, the Ministry of Finance extended the 2% AHRT for one additional year to provide ample opportunity for consultations on how to proceed after June 30, 2011.
- It is logical to assume change of some type will occur.
- Stability and certainty around marketing funding is critical to the future growth and success of both the hotel industry and the tourism industry in general.
- On August 17, 2009 the government announced the restructuring of Tourism BC into the Ministry of Tourism, which removes the performance based funding rollbacks on funding, since all appropriations will need Treasury approval.

- On Sept. 1, 2009 a new budget was introduced with a \$2.8 billion deficit - much larger than many anticipated - resulting in a new round of cost cutting and rollbacks.
- It is important to note the distinct possibility that any funding of marketing efforts originating from the 12% HST will inevitably come under tremendous scrutiny and be at risk of rollbacks over time, as the financial pressures on the government budget grow.
- Funding sources above the 12% HST that are voluntarily initiated by a tourism industry sector (i.e. Hotels) achieve 2 critical objectives:

1. Performance based certainty of funding
2. Avoidance of Provincial Government rollbacks due to growing financial demands

The Proposal

The BC hotel industry believes it is critical to ensure an effective and efficient community based marketing system that is highly professionalized, performs at the highest level, is fully accountable and is entrenched as a key component in the overall provincial marketing effort that drives the tourism economy of BC.

The BCHA proposes that the existing 2% AHRT mechanism be replaced with a "Destination Marketing Fee" model that is sustainable, representative of the collaborative tourism objectives of the destination, and align with overall Provincial marketing strategies.

In order to replace the 2% AHRT and introduce the new DMF model, legislation would be required. The following are some of the particulars required for this transition:

- a) The Hotel Room Tax Act will be rescinded with the introduction of the 12% Harmonized Sales Tax Legislation.
- b) The 2% AHRT will be extended one year and this will require legislation.
Note: 12% HST will be required on top of the 2% AHRT.
- c) Based on the presumption that the extension of the 2% AHRT expires on June 30, 2011, the objective would be to transition to the DMF model immediately, effective July 1, 2011, or prior.
- d) To achieve this immediate transition a form of "enabling legislation" would need to be introduce by the Government that allows DMOs to apply for a "Destination Marketing Fee" that they would receive from the Government (this approach is very similar to the current AHRT approach).

The most significant variations from the current 2% AHRT required for the transition to the DMF model include:

1. The DMF funds will flow to the DMO instead of through local government.
Rationale: In many post 1997 2% AHRT communities, local governments have management services agreements with their local DMO in which the funds are directly transferred. The local government involvement was incorporated over 23 years ago to fulfill a fiduciary responsibility requirement in order to receive tax payer funds. Today, all DMOs who currently receive 2% AHRT are annually audited, submit detailed reports to their local government, are governed by professional boards of directors and are accountable to their members. In effect, DMOs have matured considerably from what was envisioned in the 1980's and AHRT process has not grown with them.
2. The number of sectors that could be involved in the collection of DMF funds is broadened beyond the accommodation sector.
Rationale: Funding of marketing activities benefits all sectors of the tourism industry, including hotels; over the years other sectors have wanted to participate in some type of funding to their local DMO in a structured and formal manner. The mechanism to achieve this was not readily available. A sector would have the same opportunity to voluntarily organize themselves, as Hotels do, if they so choose.

It is assumed that accommodation sector would be the early adopters of the proposed DMF and that the voluntary implementation of a DMF in other sectors would be similar to the experience of the accommodation sector, but the specifics of other sector implementation have not yet been considered.

3. The amount of the DMF could range from 1% to 4%.
Rationale: In some communities the current 2% does not achieve the desired results. If a sector wanted to voluntarily collect from their guests an amount higher than 2%, this opportunity should be available to them. A business plan will be required to be presented to the sector for this to occur.
4. All current 2% AHRT communities would be captured by this legislative change and all community based DMOs would need to apply prior to July 1, 2011 for a DMF in order to avoid an interruption of funding, given the expiry of the 2% AHRT on June 30, 2011.

Additional Key Points:

1. The change in the flow of funds from local government to the DMO should in no way destabilize any funding arrangements that some DMOs have with any level of government. A variety of funding sources for a DMO is critical to success and this change in no way should undermine any current agreements.

In some instances local government allocates a portion of the current 2% AHRT funds to projects or programs other than those created and delivered by the DMO. Under this new DMF model, the DMO would need to negotiate this type of arrangement and any existing arrangement would need to be renegotiated with the DMO.

It is recognized that local government has a role in the tourism industry, primarily through land use planning, capital construction and facility operations, and it is vital that destination marketing and local planning and development is effectively aligned.

2. In order for a DMO to secure a DMF funding commitment from a particular sector (i.e. accommodation) a business & marketing plan would need to be presented. This would form part of the DMF application and also be critical in securing the required 51% of the properties and 51% of the room base. In this business plan, the mechanism for final sign off of the expenditure of the DMF funds will be required.

In some communities this may require a change in governance structure. It is intended to strengthen the assurances that the funds will be dispersed as presented; the creation of the business plan by a variety of stakeholders is not an issue, neither is Board composition, the point is that for a sector to voluntarily agree to collect and remit funds, there logically must be satisfaction in that sector that their interests are represented appropriately, acknowledging that those interests would be in keeping with overall holistic needs of the local tourism economy in order to effectively market the destination to the benefit of the entire tourism community.

- While this proposal outlines a mechanism to provide financial resources to DMOs, it pre-supposes the continued existence of an effective and efficient vertically integrated province wide destination marketing system.
3. All eligible DMOs interested in receiving DMF funds would need to apply for these funds. In addition, a term and process for renewal must be agreed upon by the sector collecting the DMF in collaboration with the DMO.
4. The authors of this proposal recognize that DMOs and other stakeholders are currently in process of enhancing the professionalism, accountability and performance of the system, this proposal should foster and encourage this process to the betterment of the entire tourism industry.

Timeline:

1. In order for this new DMF model to be implemented, we require strong and unified support from a variety of DMOs by the end of November. In early December the Minister of Finance will review the options presented to him by his staff and make a decision on whether or not to proceed with legislation for the spring session. If a decision is not made, there is high probability it will remain unresolved until spring 2011, which will create great uncertainty, similar to this year's situation.