
2016 OPERATING BUDGET BRIEFING NOTE

Destination Marketing Program

Issue:

On January 11, 2016 Budget Committee requested a briefing note on the revenue and collection model for hotel tax revenue currently being collected by Toronto hotels.

It is important to note that Toronto area hotels do not collect a hotel tax, but instead contribute to a voluntary Destination Marketing Program.

Background:

- In the years after amalgamation, the City sought the authority to implement a hotel tax in the City of Toronto. That authority was not granted, and the City of Toronto Act, 2006 (COTA) expressly prohibits any tax on lodging.
- Currently the HST on hotels and other transient accommodation is 13%, the same as other goods and services. Prior to the introduction in Ontario of the HST in 2010, the Provincial Sales Tax for hotel accommodation was 5% instead of the standard 8%.
- Following the SARS crisis in 2003, hotel associations and/or local tourism promotion agencies began to collect from their hotel members, on a voluntary basis, a contribution to a collective fund used for international marketing of the city/region equal to 3% of the hotel charges. This was called a Destination Marketing Fee (DMF). The total charge was therefore similar to the 8% Retail Sales Tax then in existence in Ontario.
- In Toronto, the fees were administered and collected by the Greater Toronto Hotel Association (GTHA). The GTHA transferred the fees collected (less a small percentage to cover administrative costs) to Tourism Toronto for destination marketing services.
- This fee ultimately replaced the City's annual budgetary contributions to Tourism Toronto, saving the City millions of dollars annually. Subsequent to the introduction of the HST in 2010, the DMF system was replaced by provincial grants in 2010 with funding available to assist with the transition to HST of \$65 million per year for two years province-wide for the replacement of DMF programs and for the establishment of Regional Tourism Organizations (RTOs) across Ontario. Currently, the Ministry of Tourism, Culture and Sport supports regional tourism through a \$40 million annual grant allocated to 13 RTOs across Ontario, including RTO 5 – Tourism Toronto.

- Tourism Toronto is a private not-for-profit agency, not a City agency and has no City staff nor City Councillors formally on its Board (staff do have ex officio status to assist with coordination). Tourism Toronto represents Toronto, Mississauga and Brampton. Its 2014/15 RTO allocation was \$9.9 million.
- The GTHA has been serving the hotel industry of the Greater Toronto Area for over ninety years. A major stakeholder in the tourism industry, the GTHA is the voice of the Greater Toronto Area's hotel industry, representing 170 hotels, with approximately 36,000 guest rooms and 32,000 employees. The GTHA enables competing hotels to work together on issues of public policy and charitable ventures, provides information and service to its members, and raises the profile of the hotel sector as a vital component of the Greater Toronto Area's tourism industry.

Key Points:

Current model:

- Voluntary industry-led initiatives in Ontario called Destination Marketing Programs (DMP), where contributions are made by providers of transient accommodation in a region, are for the purpose of supporting regional tourism marketing and development. Participating hotels voluntarily remit these contributions (typically up to 3% of room revenues) to their accommodation industry association who then transfer funds to a local or regional non-profit destination marketing organization for marketing activities promoting their city or region as a whole. Sometimes the hotel includes the fee on the bill to their customer and sometimes it makes the contribution from its general accounts.
- The GTHA administers the DMP by collecting the voluntary fee or percentage of revenue from participating hotels and transferring it (net of an administrative fee) to Tourism Toronto. These funds are used to fund the Destination Marketing Program for Toronto, Mississauga and Brampton. Not all hotels in Toronto, Mississauga and Brampton participate in this voluntary program. Participating hotels have entered into contracts with the GTHA to participate in the DMP.
- It is estimated that the DMP generated approximately \$19-\$20 million toward the Tourism Toronto budget in 2014 or 59% of the total budget.¹ (Note: Tourism Toronto does not publish its audited financial statements.)
- Unlike the situation in many other major cities where hotel taxes are common, Toronto is currently a recipient of funds from Tourism Toronto rather than a provider. Tourism Toronto supports the City financially by funding major City tourism events, e.g. Nuit Blanche, visitor information services and wayfinding. The funding support has varied between \$200,000 and \$1.1 million in the last few years.

Considerations:

¹ Tourism Toronto 2014 Annual report, <http://www.seetorontonow.com/getattachment/50c14879-1e13-4036-913e-4ca0108904d5/tourism-toronto-annual-report-2014.pdf.aspx>. Accessed January 14, 2016

- The City currently does not have the legislative authority to levy a hotel tax. The *City of Toronto Act, 2006* (COTA) expressly prohibits any tax on lodging.
- The City can request an amendment to COTA from the Province through the COTA review process currently underway. A hotel tax could be included in new revenue tools to be sought from the Province as part of the updated Long Term Fiscal Plan.
- If COTA was amended, a tax could be imposed for the use of a room and other facilities of a hotel. A "hotel" includes a motel, hostel, condominium, apartment house, lodging house, boarding house, club, bed and breakfast, or other similar types of transient accommodation.
- If the Province gives the City the authority to implement a hotel tax, it could affect the current funding model for Tourism Toronto, including both the Provincial grant and the DMP, and its tourism marketing program which is vital to the health of the industry. It would also have implications for the cities of Mississauga and Brampton, who are also represented by Tourism Toronto.
- In addition, if the City of Toronto were given the authority to collect a hotel tax, it could create a cost advantage for properties located outside the geographic boundary of the City (e.g. some of the airport hotels).
- In the last few years there has been a proliferation of online non-hotel accommodation rentals which enable private owners to rent out their properties, including bed and breakfast, condo apartments, guesthouse and farmhouses. These online private operations could be very difficult and/or expensive to tax, increasing administration and compliance costs.
- A legislated hotel tax could eliminate the flexibility currently afforded to Tourism Toronto's marketing efforts and could impact Toronto's conference and convention sector. Previous models have allowed for some flexibility in pricing and fees when competing for conferences and conventions.

Options for a Hotel Tax Structure and Calculation

- The City may choose one of the following two models for a hotel tax:
 1. A hotel tax would co-exist with the DMP, and generate new revenues for the City. Adding a tax on lodging on top of the existing DMP is rare, but examples do exist in other jurisdictions. The Appendix shows the various types of taxes on lodging in Canadian provinces, including a Municipal and Regional District Tax (MRDT) or Tourism Levy on top of a DMF in Vancouver, Calgary and Edmonton. The tax is collected by the respective province and transferred to the recipients on a regular (monthly) basis.
 2. A hotel tax would take over the DMP and part of the tax revenues generated would be remitted to the industry, e.g. a 5% tax with 3% staying with the City and 2% going to the industry. A 2% mandatory tax would be close to what a voluntary 3% currently generates. Given the importance of international marketing for the City's hotel industry, it is hard to imagine a situation whereby a hotel tax is imposed without somehow also ensuring a robust marketing program is funded.

Tax Base:

Tax base options	Pros	Cons
1. City of Toronto only	<ul style="list-style-type: none"> Requires change in COTA only 	<ul style="list-style-type: none"> Fairness -- may disadvantage City's tourism competitiveness vs 905 Border issues -- avoidance and compliance issues
2. GTA-wide, or province-wide	<ul style="list-style-type: none"> Higher revenue potential – growing the pie Equal playing field for all hotels in region Fair to all hotel users and municipalities across region or province 	<ul style="list-style-type: none"> Requires buy-ins from other regions and Province Requires changes to COTA and the Municipal Act

Tax Rate:

Tax rate options	Preliminary estimate of revenue potential *						
	1. A percentage of the cost of a room night sold	Each 1% = \$9M annually	Est. annual revenue as a function of tax rate				
Tax rate on \$ purchase			1%	3%	5%	7%	9%
Tax revenue			\$9M	\$27M	\$45M	\$63M	\$81M
2. A flat tax per room night sold	Each \$1 = \$7M annually	Est. annual revenue as a function of tax/room night					
		Tax per room night	\$1	\$3	\$5	\$7	\$9
		Tax revenue	\$7M	\$21M	\$35M	\$49M	\$63M

* Figures are preliminary and order-of-magnitude estimates. Should Council decide to proceed with this tax, greater due diligence will be taken to assess the revenue potential and policy implications.

Additional Information

- See Appendix A for a snapshot of Toronto's tourism industry.
- Some examples of the various types of municipal hotel taxes in North America include (see Appendix B for more detail):
 - Winnipeg — 5% Hotel Tax
 - Quebec — 3.5% Accommodation Tax in Montreal and Laval; \$2 Hotel Room Tax per room night in Quebec City and area, and a few other cities
 - Halifax — 2% Hotel Tax

- New York City — 5.875% Hotel Room Occupancy Tax plus \$2 Hotel Room Occupancy Tax per day per room
- Texas — State Hotel Occupancy Tax rate is 6%. Cities are authorized to impose an additional local hotel tax. For example, the cities of Austin and San Antonio each has a city hotel tax of an additional 9%.

Questions & Answers:

Q: Is Tourism Toronto an agency of the City of Toronto?

A: No. Tourism Toronto is a not-for-profit Regional Tourism Organization. Tourism Toronto has over 1,200 members and has an independent Board consisting of representatives of the hotel industry and other industry stakeholders (restaurants, attractions, etc.).

Q: Can the City of Toronto currently implement a hotel tax?

A: No. Only the Province of Ontario currently has the authority to introduce a new tax on goods and services. The Province could amend COTA to permit Toronto to levy a tax.

Q: Does Tourism Toronto provide any funding to the City?

A: Yes. Tourism Toronto transfers funds to the City for visitor services expenses and to assist with major events such as Nuit Blanche, wayfinding and other support for the Tourism sector. For example, in 2015, this support amounted to approximately \$700,000.

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Appendix A: Tourism Industry Snapshot

- Toronto is Canada's top tourist destination attracting 24 million visitors in 2012 (most recent data available).² Tourism Toronto estimates that in 2014, over 40 million same day and overnight visitors came to the Toronto region (including Mississauga and Brampton).³
- In 2012, 9.9 million visitors stayed overnight in the city with 4.4 million using commercial properties (e.g. hotels, motels, inns). Of these overnight visitors, 19% were from the U.S. and 12% were from overseas. Overnight visitors spent a total of 10.5 million nights in commercial accommodation in Toronto in 2012.⁴

Visitor Spending by Category in City of Toronto (CD20) in 2012

	(\$millions)
Transport (Total)	1,150
Public Transport	520
Canadian Fares	431
Other Public Transport	89
Vehicle Rental	105
Vehicle Operations	399
Local Transport	125
Accommodation	1,090
Food & Beverage (Total)	1,533
Food & Beverage at Stores	252
Food & Beverage at Restaurants/Bars	1,282
Recreation/Entertainment (Total)	463
Recreation	127
Culture	336
Retail/Other (Total)	814
Clothing	631
Other Retail	184
Total Visitor Spending	\$5,052

Source: Ontario Ministry of Tourism, Culture and Sport

- Visitor spending of \$5.1 billion in 2012 helped to support over 45,000 directly employed in the tourism sector. This spending also generated nearly \$1.1 billion in federal, provincial and municipal taxes.⁵
- Conferences and Conventions – In 2016: 19 major conferences and conventions are on the books for the City of Toronto with over 1,100 peak room nights.⁶

Number of Tourism-related Businesses in Toronto (CD20) in 2014

² Ontario Ministry of Tourism, Culture and Sport

³ Tourism Toronto 2014 Annual report, <http://www.seetorontonow.com/getattachment/50c14879-1e13-4036-913e-4ca0108904d5/tourism-toronto-annual-report-2014.pdf.aspx>. Accessed January 14, 2016

⁴ Ontario Ministry of Tourism, Culture and Sport

⁵ Ontario Ministry of Tourism, Culture and Sport, Tourism Regional Economic Impact Model, accessed January 14, 2016

⁶ Tourism Toronto

Type	City of Toronto (CD20)
Recreation	2,325
Food/Beverage Services	8,524
Transportation	4,091
Travel Services	1,087
Retail	15,069
Other Services	9,682
Total	41,229

Source: Statistics Canada, Canadian Business Patterns, December 2014

- According to the Toronto Employment Survey, there were approximately 300,000 people employed in tourism-related businesses in 2014. Note that these establishments serve residents, visitors and other businesses.

Employment in Tourism-related Businesses in Toronto in 2014

Type	Number of Employees
Accommodation	13,900
Recreation and Entertainment	38,200
Food/Beverage Services	87,500
Transportation	25,900
Travel Services	5,600
Retail	130,400
Total	301,500

Source: Toronto Employment Survey, 2014

Appendix B: Taxes on Lodging in Canada

	Province	Hotel Room Tax ⁷	Destination Marketing Fees (DMF) ⁸	PST&GST or HST on Rooms
1	British Columbia ⁹	Municipal and Regional District Tax (MRDT) <ul style="list-style-type: none"> • 3% in Vancouver • 2% in other participating municipalities & regional districts 	1.5% Vancouver – participating hotels	13% (GST 5% + PST 8%)
2	Alberta	Tourism Levy/Hotel Room Tax: 4%	<ul style="list-style-type: none"> • 3% Calgary & Edmonton • 2% & 1% in others • Corporate Hotel DMF: 3% Canalta Hotel Group, Pomeroy Group • 2% Tourism Improvement Fee: Banff 	5% (no PST)
3	Saskatchewan	na	2% Saskatoon, Regina	10% (GST 5% PST 5%)
4	Manitoba	<ul style="list-style-type: none"> • 5% Winnipeg, Thompson • \$3/night Brandon 	na	12% (GST 5% PST 7%)
5	Ontario	na	3% voluntary DMF	13% HST
6	Quebec	<ul style="list-style-type: none"> • \$2/room night – Quebec City & area • \$3/room night – select cities • 3.5% Accommodation Tax – Montreal, Laval 	na	14.975% HST (9.5% QST on top of 5% GST)
7	New Brunswick	na	2% Saint John, Miramichi, Charlotte County \$2/room night: Bathurst	13% HST
8	Nova Scotia	<ul style="list-style-type: none"> • 2% Halifax, Cape Breton • \$2/room night Yarmouth 	na	15% HST
9	PEI	MRDT: <ul style="list-style-type: none"> • 3% Charlottetown • 2% Summerside 	na	15.5% HST
10	Newfoundland & Labrador	3% St. John's, Gros Morne	na	13% HST
11	Northwest Territories, Nunavut, Yukon	na	na	5% (no PST)

⁷ These hotel room taxes can be administered by the province on behalf of the local gov't, or administered by the local gov't directly.

⁸ Destination Marketing Fee (DMF): Funds contributed by individual businesses to a joint marketing program. Strictly a business-to-business contractual agreement. Note a Canada-wide class action was launched in Dec 2014 by the law firm Merchant Law Group LLP on behalf of all Canadians who have paid destination marketing fees as part of hotel bills. The hotel named include Best Western, Hilton, Radisson, Delta, Fairmont, Hyatt, Intercontinental, Marriott, Sheraton, Ramada, Super 8, Travelodge, and others.

<https://www.merchantlaw.com/class-actions/current-class-actions/destination-marketing-fee-class-action>

⁹ BC: Municipal and Regional District Tax (MRDT): A local tax collected by the municipal, regional or provincial governments, used to promote or support local (mostly tourism) destinations

Up to 3% MRDT applies on behalf of municipalities, regional districts and eligible entities to sales of short-term accommodation provided in participating areas of BC. Currently, all participating areas of BC are charging an MRDT of 2% except for the City of Vancouver, where the rate increased to 3% effective September 1, 2015. The MRDT applies in the same manner as the 8% PST on accommodation. The MRDT is charged in participating areas to raise revenue primarily for tourism marketing, programs and projects. See list of participating areas and their tax rates below: http://www.sbr.gov.bc.ca/documents_library/bulletins/pst_120.pdf

MRDT is collected by the Province on behalf of municipalities & regional districts. The Province charges a fee to recover the cost to government for administering and enforcing of the tax -- \$20 per month per accommodation provider in the designated accommodation area. The net fees are forwarded to the designated recipients on a monthly basis.