

Clause embodied in Report No. 3 of the Economic Development and Parks Committee, as adopted by the Council of the City of Toronto at its regular meeting held on April 23, 24, 25, 26, 27, and its special meeting held on April 30, May 1 and 2, 2001.

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**Tourism Sector Development
and Destination Marketing Services (All Wards)**

(City Council at its regular meeting held on April 23, 24, 25, 26, 27, and its special meeting held on April 30, May 1 and 2, 2001, adopted this Clause, without amendment.)

The Economic Development and Parks Committee recommends the adoption of the report (March 7, 2001) from the Commissioner of Economic Development, Culture and Tourism, subject to amending Recommendation No. (4) to read as follows:

“(4) consideration be given to Tourism Toronto continuing to receive the same level of funding provided in 2000, \$4.231 million, for the provision of destination marketing services, and that the Committee’s recommendation be forwarded to the Budget Advisory Committee for consideration as part of the 2001 Operating Budget process;”.

The Economic Development and Parks Committee reports having requested the Budget Advisory Committee to give consideration to the following recommendation:

“(4) consideration be given to Tourism Toronto continuing to receive the same level of funding provided in 2000, \$4.231 million, for the provision of destination marketing services, and that the Committee’s recommendation be forwarded to the Budget Advisory Committee for consideration as part of the 2001 Operating Budget process;”.

The Economic Development and Parks Committee submits the report (March 7, 2001) for the Commissioner of Economic Development, Culture and Tourism:

Purpose:

The purpose of this report is to provide a profile of the tourism cluster, review City-based tourism development and marketing activities and make recommendations on Tourism Toronto’s 2001 Budget.

Financial Implications and Impact Statement:

The adoption of this report would maintain the level of funding for Tourism Toronto at its 2000 budget level of \$4.231 million. The Consolidated Grants Sub-Committee recommended a reduction of 5 percent to the 2001 budget at its meeting of February 27, 2001.

The Chief Financial Officer and Treasurer has reviewed this report and concurs with the financial impact statement.

Recommendations:

It is recommended that:

- (1) the composition of Team Tourism be expanded so that all Departments are represented on the inter-departmental team for the purpose of co-operatively addressing tourism issues, development and marketing opportunities;
- (2) Tourism Toronto be requested to provide tourist information services at City Hall from June 1 to September 4, 2001;
- (3) the funding provided to Tourism Toronto for contracted destination marketing services be reallocated from the Grants Program to the Economic Development program;
- (4) Tourism Toronto continue to receive the same level of funding provided in 2000, \$4.231 million, for the provision of destination marketing services, and that the Committee's recommendation be forwarded to the Budget Advisory Committee for consideration as part of the 2001 Operating Budget process;
- (5) Mayor Lastman meet with the Minister of Finance to pursue a harmonized sales tax, or visitor levy, to ensure that Toronto and Ontario does not continue to lose its market share of tourism activity; and
- (6) the appropriate City officials be authorized and directed to take the necessary action to give effect thereto.

Background:

The Economic Development Strategy adopted by Council in August 2000 confirmed that the tourism cluster is one of the key contributors to the health and diversity of the City's economy. The Strategy articulated the need to attract new tourism investment and tourists to Toronto by building on and promoting the City as an exciting, event filled year round destination.

One of the priority actions identified in the strategy includes securing an adequate, stable funding mechanism for destination tourism marketing in order to increase the international exposure of Toronto as a top tourist destination.

The City, through the Economic Development, Culture and Tourism Department, signed a three-year partnership agreement with Tourism Toronto last year. The agreement is a service contract that strengthens the relationship between the two organizations and establishes an alternate service delivery arrangement with Tourism Toronto. In many municipalities destination marketing is the responsibility of the City. The agreement identifies Tourism Toronto as the lead organization to conduct destination tourism marketing as a contracted service for the City and ensures the City's destination marketing objectives are being met. As a condition of the agreement, this report provides a review of Tourism Toronto activities and makes recommendations on their 2001 budget.

Comments:

Tourism Sector Profile:

According to the World Tourism Organization, every year a bigger portion of the world population takes part in tourism activity and for the majority of countries tourism has developed as one of the most dynamic and fastest growing industries. In 1999, the number of international tourists travelling in the world reached 664 million. International tourism receipts were estimated at \$US 455 billion. By 2010, they are expected to surpass \$US 1.5 trillion. Canada's position as one of the top 15 tourist destinations in the world has risen from 11th in 1995 to 7th in 2000.

Tourism is a major sector and a vital component of the economy. Toronto is Canada's largest tourist destination and received 16.2 million total visitors in 2000 as reported by Tourism Toronto. In 1999, tourism revenues rose 1.9 percent to \$ 3.249 billion and although figures have not been finalized at this time, 2000 will likely show a 2.8 percent gain of about \$90 million. In Ontario, tourism is the fifth largest export industry and provides 270,000 direct jobs. Tourism in Toronto employs 93,000 people and continues to play an increasing role in the new economy and in the economic development of the City.

Tourism markets are segmented into a variety of categories, including the following: leisure and business; same day and overnight; age and income. Demographic and psychographic profiles, as well as point of origin and length of stay are also taken into account when designing marketing programs. As shown in the attachment, Table No. 1, tourists who travel for leisure and those who are visiting friends and relatives (VFR) are for the largest categories of visitors to Toronto. The business market creates less tourist volume but accounts for higher revenues. Table No. 2 indicates visitors by source market and shows that approximately 60 percent of tourists to Toronto come from other parts of Ontario, 20 percent from the US and 10 percent each from the rest of Canada and overseas markets. As well as looking at volume (the number of visitors) it is useful to look at the value of those visitors. In revenue terms Canadians spent \$1.3 billion, Americans spent \$1.2 billion, and overseas visitors spent \$8 billion in 1999.

Supporting the continuing growth of the tourism cluster is the shared responsibility of the private sector, Tourism Toronto and the City. Each stakeholder has a key role to play and has formed complementary partnerships to develop a strong network of activities. Tourism Toronto is central to the partnership as it provides marketing and convention services on behalf of the private and public sectors. The table below provides a brief overview of the stakeholders' tourism roles.

Table No. 1: Tourism Roles

Public Sector	Tourism Toronto	Private Sector
Public Attractions Arts and Cultural Events Historic Sites Visitor Information Visitor/Resident Assistance Public Infrastructure Clean City Safety	Destination Marketing Leisure Market Development Business Meetings and Conventions Visitor Information Public Relations Call Centre Research	Tourism Attractions Tourism Events Tour Operations Hotels – Accommodation Restaurants- Meals Retailers- Shopping Suppliers

Tourism Development Activities:

The City of Toronto is directly and proactively engaged in a number of initiatives to bolster tourism, ensure continued growth and develop new tourism opportunities. The following provides a brief summation of the City’s tourism-related activities and initiatives. Many of these are undertaken by the Economic Development, Culture and Tourism Department in partnership with the private sector, the provincial and federal governments as well as with other organizations, such as Tourism Toronto. The common objective is to stimulate tourism through marketing, new product development, special events, infrastructure development, programs and policies. The table below summarizes the range of tourism activities in which the City is currently involved.

Table No. 2: City of Toronto – Tourism Initiatives/Investment

Infrastructure Investment	- Airport Expansion - BIA/Façade Improvement Programs - Toronto/Rochester Fast Ferry Project - Waterfront Revitalisation
Marketing	- Partnership/Service Agreement with Tourism Toronto - 2008 Olympic Bid - Toronto Winter Mix and Match Campaign
Investment Attraction	- Tourism Investment Study - Support for New Hotel Development
Product Development	- Moose in the City of Toronto - Summer Street Festival - Museum Pass Program - WinterFest - Cruise Shipping Initiative - 2008 Olympic Bid - World Youth Days
Policy Development	- Retail Holidays Business Act - Cultural Plan Liaison
Co-ordination	- Team Tourism - Bus Parking
Customer Service	- Tour Guide Training Initiative - Educational Programs

In order to facilitate the common goal of advancing the tourism sector, the Commissioner of Economic Development, Culture and Tourism established Team Tourism last year. The team is an inter-departmental committee comprised of representatives from Special Events, Policy and Development, Parks and Recreation, Culture, Economic Development and Tourism Toronto.

This task force continues to position tourism initiatives as a thread that ties all divisions of the Department together. The team works to capture synergies and opportunities within the whole Department; to position City of Toronto facilities, programs, services and events within a tourism context; to facilitate the development of a co-operative and cohesive industry sector with all stakeholders; to build awareness of the value of tourism across all City departments, agencies, boards and commissions and to ensure that tourism is taken into account when capital, programming and policy decisions are considered. It is recommended that the composition of Team Tourism be expanded in 2001 so that all Departments are represented on the inter-departmental team for the purpose of co-operatively addressing tourism issues and marketing opportunities.

Tourism Marketing Activities:

The City of Toronto is the principal funding partner of Tourism Toronto. It was formed in 1926 as a not-for-profit co-operative marketing and visitor services organization. Its membership is comprised of some 850 firms and organizations that have a significant stake in the continuing growth, development and economic viability of tourism in the City. The Board consists of 42 members and includes the following City Council members: Mayor Mel Lastman (ex-officio), Councillors Raymond Cho, Frank Di Giorgio, Anne Johnston, Joe Pantalone, Kyle Rae, Sherene Shaw and Mr. Joe Halstead, Commissioner of Economic Development, Culture and Tourism.

The City contracts its destination marketing responsibilities to Tourism Toronto. The City currently provides \$4.231 million to Tourism Toronto to provide destination marketing. The private sector provides a matching amount to Tourism Toronto thereby increasing its ability to market Toronto to the world. Currently, this funding is categorized in the City's budget as a grant, even though there is a service agreement between the City and Tourism Toronto. There is a need to reconsider this practice. It is recommended that the program funding provided to Tourism Toronto be considered as the City's contribution for contracted services and be reallocated from the Grants Program to the Economic Development Division budget.

The services provided by Tourism Toronto benefit the entire city. Tourism Toronto attracts tourists who pay to attend cultural events and attractions; use the TTC; dine in restaurants; shop in stores and stay in hotels which in turn generates revenue and employment. As shown in Table No. 3, in 1999 Tourism Toronto managed 1,000,000 accommodation bookings, 708 meeting and conventions, and 248,000 visitor call centre enquiries. It also conducts tourism research and analysis as well as the development of a tourism website. Figures for the year 2000 are now being prepared.

In 2000, Tourism Toronto assisted the City by providing tourist information services at City Hall at the request of Corporate Services. The Tourism Toronto information kiosk handled a total of 3,655 in-person tourist related inquiries from July to September last year. The kiosk located in the rotunda complemented Access Toronto public information services and enhanced the visitor

experience. The Economic Development Division has requested that Tourism Toronto provide tourist information services at City Hall from June 1 to September 4, 2001, as a component of our service agreement. In order to facilitate Tourism Toronto's provision of this service, their funding level for contracted services should not decrease. Tourism Toronto is willing to continue to provide the service if funding levels are maintained. The Commissioner of Corporate Services has reviewed this report and concurs with Tourism Toronto's provision of tourist information services at City Hall.

Tourism Issues/Challenges:

According to Tourism Toronto, the first quarter of 2000 was a disappointment. The US market, which represents 22 percent of Toronto's total volume, reported a first quarter decrease of 3.9 percent. The overseas market, 8.9 percent of all visitors to Toronto, was also down by 2.1 percent primarily due to a business travel decline. The second quarter was flat partially as a result of the escalation in gas prices and an unseasonably cool spring. Tourism Toronto anticipates that figures for 2000 will show a slight decline in volume levels (leisure down/business travel up) with modest revenue gains over 1999. By way of context, international travel to Canada was up 0.7 percent but was down 1.3 percent to Ontario. Ontario is losing market share to other parts of Canada.

Looking forward into 2001, Tourism Toronto forecasts a similar picture: overall visitation flat, with a potential revenue gain over 2000, although the current sharp economic downturn makes forecasting difficult. It should be noted that when the economy is growing, the tourism industry grows faster but when the economy slows, the tourism sector slows faster. In addition, conference and trade show bookings in 2001 are considerably lower than in previous years, but return to normal in 2002 and beyond.

To sustain and increase tourism will be a challenge. Tourism Toronto reports total US visits have decreased 14 percent since 1996 even though the Canadian dollar has been low. The single most significant factor affecting the loss is decreased funding for destination tourism marketing. Other influences include higher fuel costs; the impact of national airline restructuring/air capacity issues; the loss of Livent and subsequent promotional activities; higher room rates and room shortages during peak season; increased competition from other destinations; and lack of new attractions.

Tourism Toronto's total budget has dropped from \$10.0 million in 1995 to \$8.2 million in 2000 - a decrease of \$1.8 million or 20 percent over ten years. In the same period, budgets in Montreal and Vancouver have grown by 62.5 percent and 26.5 percent respectively. Table No. 4 shows that among total CVB budgets, Tourisme Montreal which has a \$16 million budget is ranked 14th and Tourism Vancouver with a budget of \$11 million is ranked 28th. Tourism Toronto with an \$8 million budget is ranked 33rd.

Despite their larger budgets, Montreal attracts 10 million visitors and Vancouver attracts eight million visitors annually. This is largely attributable to the lack of major convention facilities, fewer hotel rooms and less demand from the business market. However, these cities are aggressively vying for convention facility expansions, new hotel development and are strongly positioned in the marketplace as attractive destinations. There is a concern that Toronto will lose market share to these and other destinations.

One of the principal reasons for the decrease in Tourism Toronto's budget stems from a reduction in municipal funding. From 1995 to 2000, Tourism Toronto's municipal contribution has been reduced by \$2.3 million dollars – a 32.5 percent decrease - while the private sector contribution has increased. Table No. 5 illustrates the split between public and private funding contributions. As the chart shows, private sector contributions have increased by as much as 16 percent since 1995. Table No. 6 further illustrates the percentage contribution of public and private funding of Tourism Toronto creating a near 50-50 split between private and public sector funding in 2000.

In 1993, Metropolitan Toronto Council and Tourism Toronto adopted a tourism strategy, Vision 2000. Many of the recommendations of this strategy have been successfully implemented, but the establishment of a visitor tax as a stable base for destination marketing has not been achieved. At the time of the report, the tourism industry representatives indicated that they would consider supporting a visitor tax subject to the removal of the Commercial Concentration Tax (CCT) on hotels.

When CCT was removed, it was Metropolitan Council's assumption and expectation that Tourism Toronto would continue to pursue discussions with the Province concerning measures to create additional sources of tourism marketing funds. These measures included, but were not limited to, a new tax on visitor's staying in paid accommodations, or alternatively, increasing the provincial sales tax payable by hotel guests from 5 percent to 8 percent, which is the amount applied to most other goods and services in the Province. It was anticipated that this new source of revenue would supplement Tourism Toronto's marketing budget and bring it in line with other competitive destinations.

Stable Source of Funding for Destination Marketing:

The need to establish a new revenue source for destination marketing has become apparent. To maintain Toronto's competitive position as Canada's leading tourism destination requires a significant increase in funding for Tourism Toronto. The revenue raised through an increase in the Provincial Sales Tax or the implementation of a visitor tax on commercial accommodation will enable Tourism Toronto to compete effectively with the marketing initiatives of other major North American cities.

It should be noted that Tourism Toronto continues its efforts to increase revenue from the private sector through membership initiatives and marketing programs. While more dollars are being raised, they are dedicated to specific campaigns, require high levels of staff support to develop and execute and do not result in financial support for the infrastructure of Tourism Toronto. In addition, the partnership programs of the Ontario Tourism Marketing Partnership (OTMP) and the Canadian Tourism Commission (CTC) have not yet proven to be of substantial assistance in either supplementing or replacing Toronto's marketing requirements as these programs operate on the basis of matching funds.

It is reasonable to surmise that the budget level attained by Tourism Toronto ten years ago is unachievable today using current practices. In other words, membership based support for Tourism Toronto may have reached a plateau. Partners join because they see value to programs. If Tourism Toronto is unable to finance programs current members drop out. The lack of a

dedicated visitor tax for destination marketing activities means that the marketing programs and efforts of Tourism Toronto lag behind those of other North American cities. Table No. 7 shows that the level of revenue generated for CVB's in other jurisdictions is higher and is achieved through a hotel room levy as an additional source of revenue.

At present, taxes paid by guests for commercial accommodation in Ontario totals 12 percent (7 percent GST and 5 percent PST). In Toronto, an increase in PST from 5 percent to 8 percent has the potential to generate \$24 million a year based on an average daily room rate of \$130.00 and 6 million hotel room bookings. A portion of these funds could be reallocated to achieve a stabilized funding base for Tourism Toronto and could also be used to further enhance tourism development.

An increase from 12 percent to 15 percent would remain competitive with taxes paid for accommodation in other jurisdictions. For instance, in Vancouver the tax is 17 percent (7 percent GST, 8 percent PST plus a voluntary 2 percent visitor levy). In Montreal, taxes total 14.5 percent (7 percent GST and 7.5 percent PST plus an additional room tax of \$2.00 per room per day). Room taxes are also levied in other regions of Quebec and British Columbia. In the United States most jurisdictions have established a specific room levy or room tax for generating revenue for CVBs.

It has been argued that revenues raised from a room tax singles out the accommodation sector and will lead to further erosions in the tourism market sector, given that the rest of the tourism industry receives some 60 percent of the tourism dollars spent. From 1996 to 2000, Toronto hotel occupancy rates averaged 72 percent and hotel room rates increased 50 percent, clearly outpacing inflation. The hotel industry has re-invested these returns into revitalizing their properties and in recent years, more than \$150 million was spent on hotel remodelling, expansion and refurbishment projects in Toronto. The increases in room rates suggest that a modest tax increase on accommodations could be absorbed in the marketplace while remaining competitive. It should also be noted that while a price increase could reduce demand, increased marketing would also work to increase demand. It is worth noting that hotels spend an estimated \$150 million annually on advertising and are also promoting tourism to Toronto.

It is recommended that the Economic Development and Parks Committee consider recommending that the Tourism Toronto maintain the same level of funding provided in 2000, \$4.231 million, in order to maintain the current level of City support for destination tourism marketing services, and that the Committee's recommendation be forwarded to the Budget Advisory Committee for consideration as part of the 2001 Operating Budget process. This would maintain municipal funding to Tourism Toronto at the year 2000 level.

In 1999, the City requested the Province to either implement an increase in the Provincial Sales Tax on paid commercial accommodations and redirect a portion of these revenues to CVB's to support destination marketing activities or to provide enabling legislation to allow the accommodation sector to establish a levy to support destination marketing. The resolution of this issue must be pushed forward in order to develop a sustainable tourism marketing program. It is being recommended that Council affirm its support and the need for a harmonized sales tax, or visitor levy, for hotels in order to ensure that Toronto does not continue to lose its market share of tourism activity.

Conclusions:

Tourism does not operate in a vacuum. Successful tourism destinations exist through partnerships. Best practices demonstrate that sustained tourism growth is achieved by the private and public sectors working together to attract and build quality experiences for visitors that are exciting, profitable and safe. The City of Toronto will continue to work in partnership with the tourism industry, other levels of government and with residents to help forge a new vision of tourism for the City and to ensure tourism is strengthened. It is vitally important for the City to recognize that many of its services that enhance the quality of life also have a direct impact on tourism. The need to facilitate dialogue and collaboration among departments on issues related to tourism sends a positive message to the industry about the City's interest and support of an important industry cluster. The City plays dual roles in both product development (quality of life) and destination marketing.

During a period when tourism to Canada is increasing, tourism to Toronto has begun to decline. The most crucial issue at this time is obtaining stable funding for Tourism Toronto in order to increase its destination marketing activities and tourism-related services for the City.

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Attachment No. 1

Table No. 1

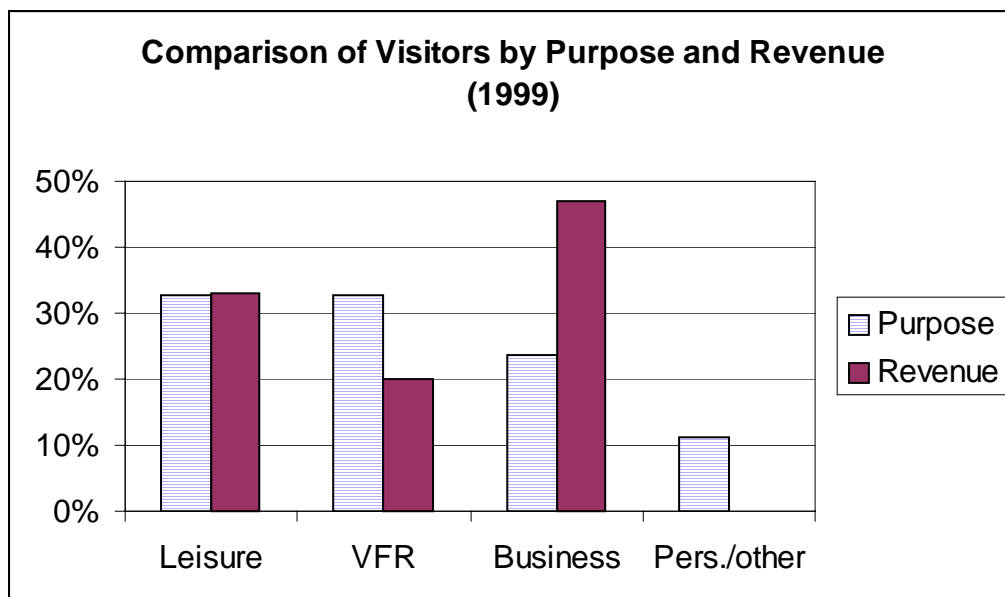


Table No. 2

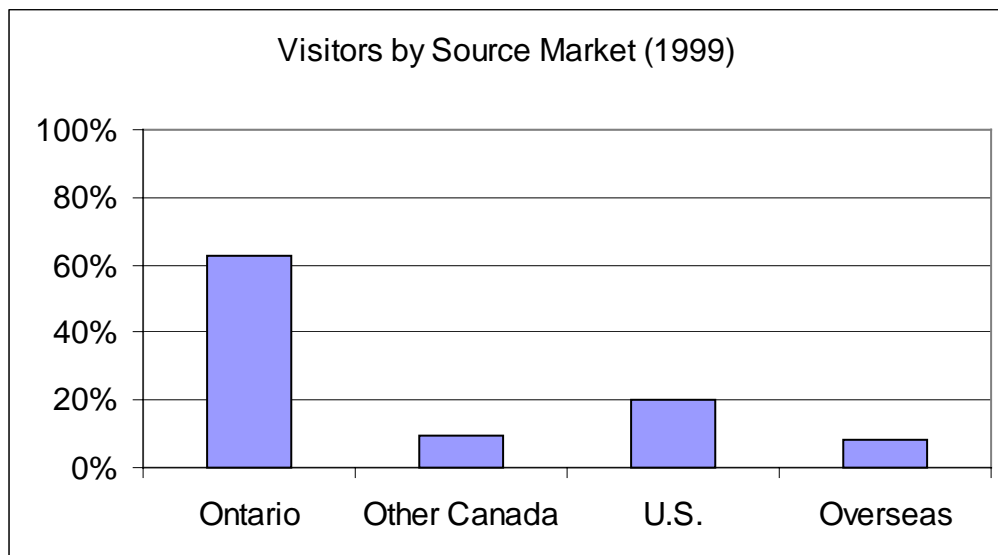


Table No. 3
 Tourism Toronto Performance Measures
 (Tourism Toronto assisted events)

Activities	2000	1999	1998	1997
Number of meetings, conventions and tradeshows		708	942	911
Number of overnight convention, meetings and tradeshow attendees (thousands)		389	551	na
Total room nights booked by conventions (thousands)		1,000	1,060	985
Revenue from conventions (\$billions)		0.84	1.13	1.09
Visitor inquiries to Tourism Toronto (thousands)	175	248	265	211
Website hits (millions)		19.1	na	na
Number of In-person Visitor Inquiries at City Hall	3,655	na	na	na
Tourism Toronto membership base		950	850	769

Note: Tourism Toronto is currently reviewing these figures and preparing data for 2000.

Table No. 4

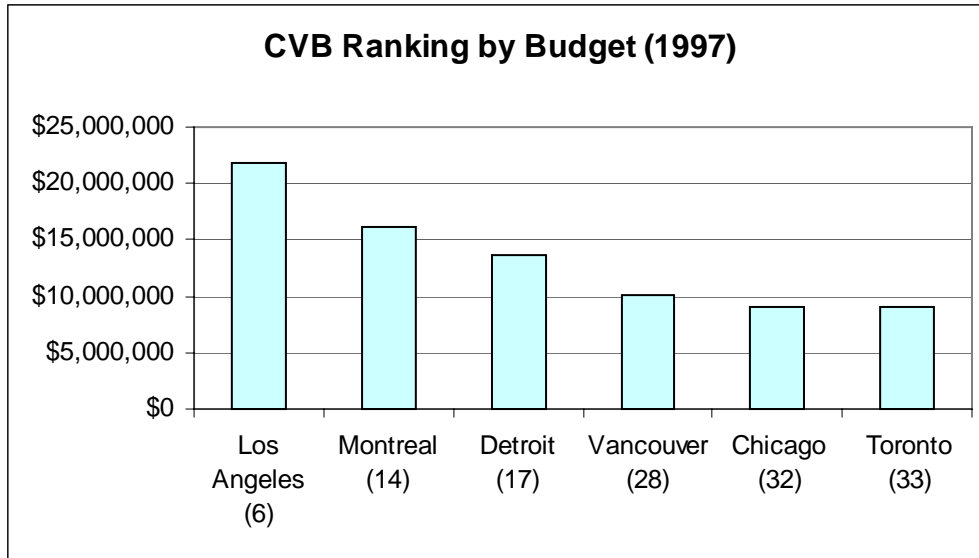


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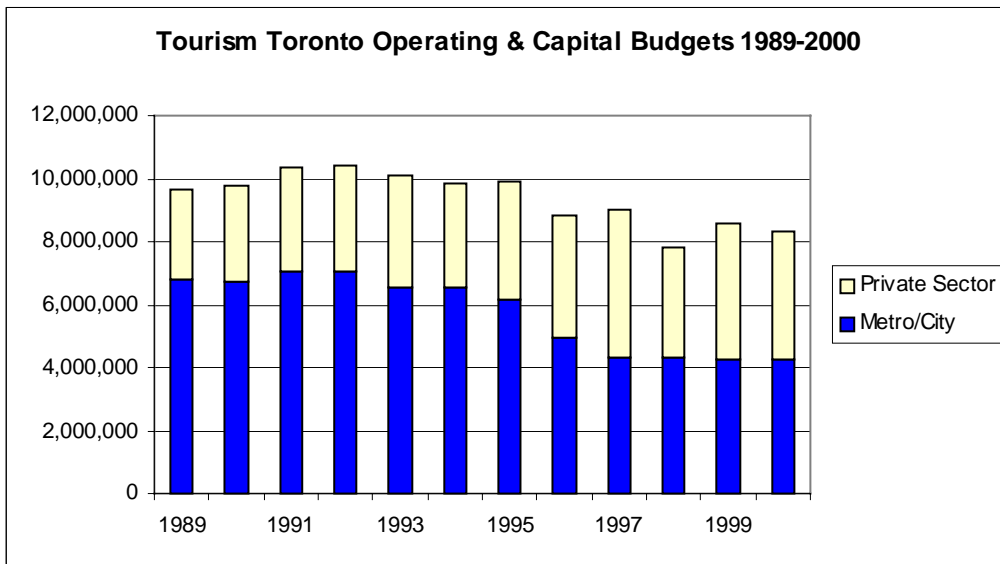


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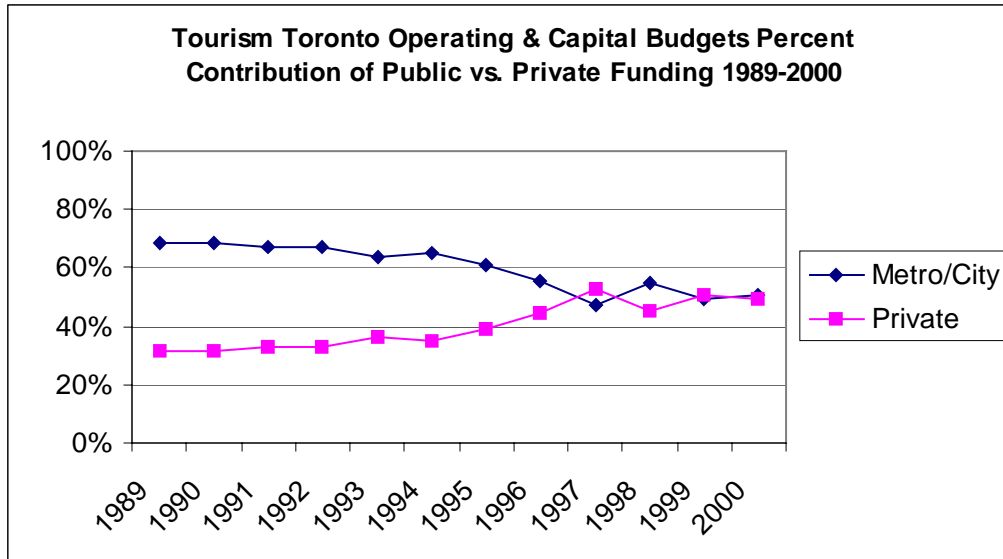


Table No. 7

