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**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 DMOs so that they can continue to build and execute their sales and marketing strategies in an effective and seamless manner.

DMOs 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.

Additionally, the restructuring of Tourism BC into the Ministry of Tourism removes the performance based funding model effective April 1, 2010 and in effect removes the exclusion from government rollbacks on funding, since all appropriations will need Treasury approval.

It should further be taken into account that there exists 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.

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.

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. Capacity for long term planning without risk of 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.

This Conceptual Framework is formed with the objective to transition to the DMF model immediately, effective July 1, 2011, or prior.

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 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.
3. 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.