MANITOBA | HOTEL | ASSOCIATION

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Manitoba Hotel Association Takes Case Against Room Tax to EPC

Argues Destination Marketing Fund model more effective, less costly

March 17, 2008 – The Manitoba Hotel Association took its case against a five percent Room Tax to the City's Executive Policy Committee today, citing the damaging economic impact the tax would have not only on Winnipeg's hotel and tourism industry, but on the local economy as a whole.

"Almost 16,000 jobs in this province are directly impacted by tourism," says Jim Baker, President and CEO of the MHA. "Most of those jobs are in Winnipeg. We have a plan to protect and grow our market share. What's been proposed in this budget puts the city's meeting & convention business at risk."

The proposed five percent Room Tax is one sure way to drive away business and slow economic growth, says the MHA.

"We lose events and conferences to cities like Edmonton, Calgary, Saskatoon, and even smaller centres," says Baker, "largely because we haven't got a pool of dedicated dollars to market our city and support our bids. We need to be competitive with these markets and we need a level playing field."

A level playing field means getting the proposed Room Tax out of the budget, says Indu Brar, General Manager of the Fairmont Winnipeg. She says a five percent Room Tax will be an insurmountable barrier to the tourism industry in Winnipeg.

"At 17%, a Winnipeg hotel room will be the most heavily taxed in the country," says Brar. "The places we're competing with are in the 12-15 percent bracket. If we don't stay in that range we'll price ourselves out of the market. The impact on our industry will be crippling."

The MHA's alternative to the Room Tax is a two percent Destination Marketing Fund. While the DMF, like the Room Tax, will increase the cost of a hotel room, Baker maintains the DMF model is not only less costly, it's more effective and efficient.

"First of all, a two percent DMF puts a Winnipeg hotel room at a 14 percent tax rate, which is within the range we need to stay in to be competitive. Second, the revenue from a DMF goes directly into destination marketing with minimal administrative costs, something the City's administrative structure can't match. That means a greater proportion of money raised through a DMF goes to its intended purpose: marketing. Third, the DMF model is already market-tested with great success across North America. Winnipeg is the last major Canadian city to implement a DMF."

In May 2006, the hotel industry partnered with Destination Winnipeg, Travel Manitoba and the Winnipeg Convention Centre to fund a study that would lay the groundwork for making Winnipeg more competitive. The study found that Destination Winnipeg – an arm of the City of Winnipeg – was underfunded, and recommended a marketing levy. Over the next year and a half the association built consensus on a DMF among its membership, and the partners agreed to move forward.

"DMFs are commonplace among markets across Canada and they work well," says Bob Sparrow, Owner of the Norwood Hotel. "This proposal is industry driven and proven effective across the country. It keeps us competitive while generating an incremental source of funds for marketing Winnipeg as a great destination. It's a win for everyone: the City, the tourism industry and taxpayers, too."

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For more information, contact:
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Destination Marketing Fund

Key Points & Reference Material

Winnipeg's
Destination Marketing Fund

What is a Destination Marketing Fund?

A Destination Marketing Fund, or DMF, is a market-driven, market-tested method of channeling dollars directly into promoting a specific destination. It takes the form of a levy applied to hotel room bills. Funds raised are pooled together and used to attract tourists, as well as meetings, conventions and special one-time events.

Why a DMF works

A DMF works for several reasons:

- It's initiated by the hotel industry, so it's priced to keep the market competitive.
- It's market-tested: Winnipeg is one of the last urban centres in Canada to introduce it.
- It's efficient: 97% of revenues support destination marketing.
- It's effective: a DMF provides an incremental (new) source of funding to attract tourism as well as meeting and convention traffic
- It grows the economy and protects jobs

Destination Marketing Fund
Key Points & Reference Material

Winnipeg's
Destination Marketing Fund

Key Points

A DMF is Market-Tested and Market-Driven

- A DMF creates a level playing field by developing a pool of resources specifically for destination marketing and supporting competitive bids for meetings, conferences and big one-time events. Plus, it's initiated by the industry, so it's priced to keep us competitive.

- In almost every urban centre across Canada, an industry-driven DMF is in place. (See attached chart)

DMFs across Canada

Winnipeg is the last major Canadian city without a dedicated levy for destination marketing.

	Total tax / DMF	Funds used for			Led by local hotels
		Destination Marketing	Infra-structure	General Revenue	
Vancouver	15 %	Yes	No	No	Yes
Edmonton & Calgary	10 %	Yes	No	No	Yes
Regina & Saskatoon	12 %	Yes	No	No	Yes
Winnipeg	14 %	Yes	No	No	Yes
Toronto & Ottawa	13 %	Yes	No	No	Yes
Montreal & Quebec	15.5 %	Yes	No	No	Yes
Halifax	15.3 %	Yes	No	No	Yes
St. John's	16 %	Yes	Partially	No	Yes

Destination Marketing Fund

Key Points & Reference Material

Winnipeg's
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A DMF of 2% makes Winnipeg competitive

- Once GST and PST are added, a DMF of 2% puts the total tax bill on a Winnipeg hotel room at 14%. That puts us in the same range as other Western Canadian cities with which we compete.
- A 2% DMF is expected to generate approximately $1.5 million - $2 million per year in incremental (new) funding for destination marketing
- A 5% Room Tax, on the other hand, puts us at 17%, making Winnipeg hotel rooms the most heavily taxed in the country, and rendering us unable to compete for vital meeting and convention business that benefits everyone.
- Without incremental funding for marketing, Winnipeg is disadvantaged in its ability to attract business that generates a return on investment felt throughout the entire economy

"From a competitive position, Destination Winnipeg operates at a disadvantage compared to its Western counterparts of Edmonton, Calgary, Regina and Saskatoon which generate funds through a voluntary 1% or 2% levy on room costs, that are used solely to market their destination."

- Pannell Kerr Forster Report, Manitoba Hotel Association, 2006

A DMF is efficient

- 97% of the DMF will go to marketing, with 3% allocated to administration. The lower cost of administering a DMF compared to a City tax means more revenue collected goes to its intended purpose: marketing.

Winnipeg accounted for 58.7% of total travel expenditures to the province of Manitoba in 2004. This is a decrease of 1.4% over this region's 2003 expenditures share which was 60.1% or $834,475,000.

- Winnipeg Regional Tourism Profile, 2004*

Destination Marketing Fund

Key Points & Reference Material

Winnipeg's
Destination Marketing Fund

A DMF is an opportunity

- To grow our economy
- To showcase our city
- To keep our bids for events competitive
- To better position ourselves to land bids for big events being awarded right now and in the future
- For the tourism industry and the City of Winnipeg to partner in the most effective way possible to achieve our common goals.

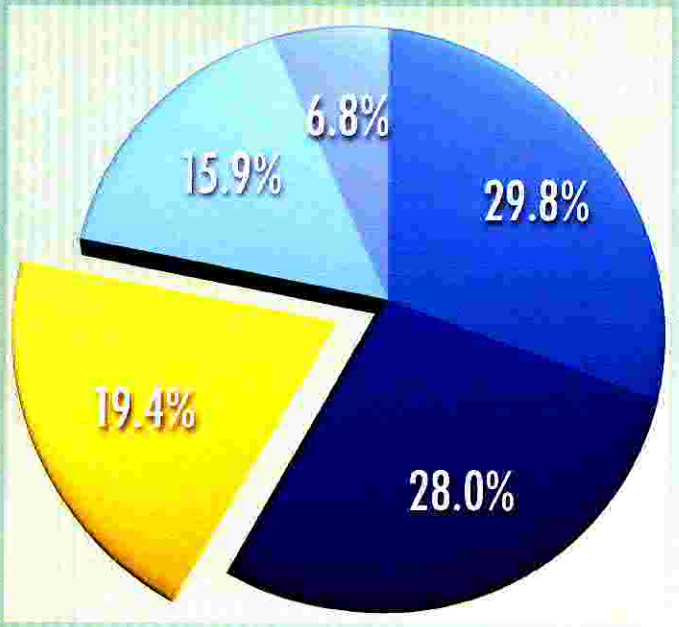
Tourism is worth more than $3.9 million a day to Manitoba's economy.
- The Value of Tourism (2004), Travel Manitoba

Destination Marketing Fund

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Tourism spending in Winnipeg



- Retail - 29.8%
- Restaurants - 28%
- Hotels - 19.4%
- Air travel, car rentals & other transportation - 15.9%
- Sporting events, other recreation & entertainment - 6.8%

Source: Destination Winnipeg

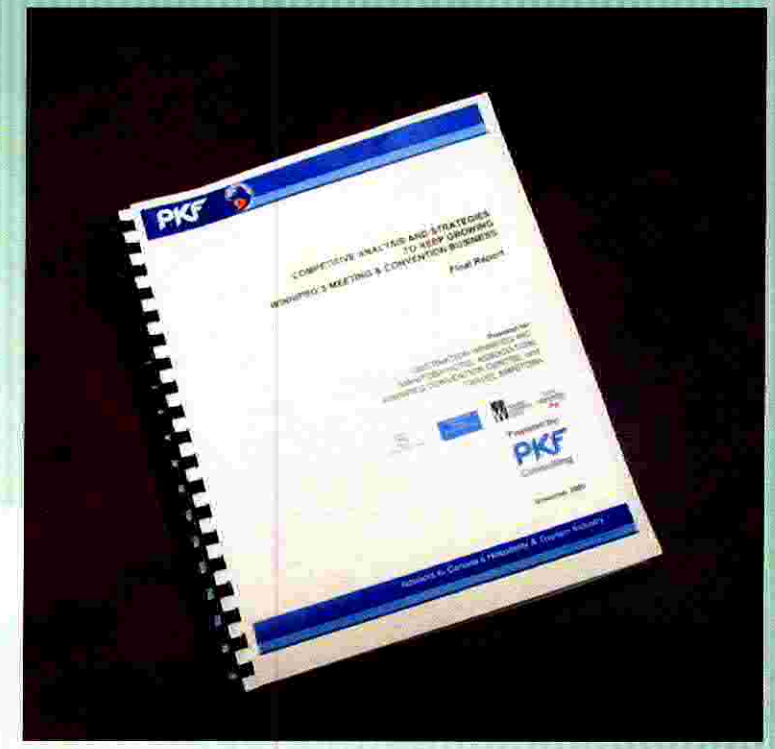
PKF study

destinationWinnipeg · Manitoba Hotel Association · Winnipeg Convention Centre · Travel Manitoba Canada

May 2006

- Destination Winnipeg
- Winnipeg Convention Centre
- Manitoba Hotel Association
- Travel Manitoba

agree to partner on a study on "Competitive Analysis & Strategies To Keep Growing Winnipeg's Meeting & Convention Business"



PKF study

destinationWinnipeg | Manitoba Hotel Association | Winnipeg Convention Centre | Travel Manitoba Canada

Key findings in the PKF Report

- Destination Winnipeg underfunded
- Recommends a levy to enhance funding
- 100% of levy to marketing, conference & event attraction
- "The group unanimously supported the need to utilize any revenues generated from a potential DMF for incremental marketing purposes... The group agreed that it is imperative that any potential funds generated through a DMF not be utilized for capital projects or general revenues."

Winnipeg's tourism budget

Winnipeg spends less than any other major Canadian city to attract tourism & events.



Source data: Destination Winnipeg

The Process

- Steering committee created
  - Downtown hotels: Marlborough, The Fairmont, Delta, Inn at The Forks
  - Airport hotels: Hilton, Sandman, Greenwood
  - Suburban hotels: Canad Inns, Holiday Inn South, Norwood
- Studied DMFs in Edmonton, Calgary, Regina & Saskatoon and other cities
- Legal, accounting framework, timeline for DMF proposed
- Consultation with civic & provincial elected officials & administration

DMFs across Canada

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Why DMFs work

Market tested across Canada	Yes
Industry standard across Canada	Yes
Supported by industry	Yes
Led by industry	Yes
Low administration costs	Yes

Opposition to city tax

- Travel Manitoba
- Winnipeg Chamber of Commerce
- Manitoba Chambers of Commerce
- Winnipeg Airport Authority
- Downtown Biz
- Meeting planners
- Restaurants & bars
- Suppliers to hotels & restaurants
- Hotel owners, operators & employees

Letter from Travel Manitoba

."... in order to improve our competitive position in the tourism marketplace, we believe it is critical that the revenues derived from any accommodation levy be dedicated to incremental destination marketing and events acquisition. Over the past few years the collective efforts of Travel Manitoba, Destination Winnipeg, attractions and events, hotels and convention facilities have developed a results oriented partnership that is envied by other destinations.

The decision that City Council takes on the application of a hotel accommodation tax will, to a considerable degree, determine the future direction of these partnerships and our collective capacity to grow tourism in Winnipeg and Manitoba. We encourage further consultation on this important issue in order to ensure that the best decision is made for the long term."

Sincerely,
Paul Robson
Chair, Travel Manitoba

Conclusion

- Our process has been consultative
- Our model is based on the best practices across Canada
- A 5% tax on hotel rooms will be an insurmountable barrier to the tourism industry in Winnipeg
- We urge the city to work with our industry & tourism partners to ensure that we remain competitive and NOT implement a 5% room tax

Travel Manitoba
CANADA

Board of Directors

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Max Johnson, *Vice-chair*
President
The Great Canadian Travel Company Ltd.

Jim August, *CEO*
The Forks North Portage Partnership

Curt Enns, *Owner/Operator*
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Michelle Gervais, *Owner/Operator*
Ô Tours Inc.

Claudette Leclerc, *Executive Director*
The Manitoba Museum

Karen Oliver, *General Manager*
Provincial Exhibition of Manitoba

Doug Ramsey, *Associate Professor*
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JTM Consulting

William Young, *Owner/Operator*
Bloodvein River Lodge

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March 14, 2008

His Worship Mayor Katz
City of Winnipeg
2nd Floor - Council Building
510 Main Street
Winnipeg MB R3B 1B9

His Worship Mayor Katz,

Re: Hotel Room Tax Levy

On behalf of the Board of Directors of Travel Manitoba, the Provincial Crown Agency mandated to lead sustainable tourism growth and development in the province, I am writing to express our concerns over the recent developments regarding hotel room levies in the City of Winnipeg. The Board of Travel Manitoba is comprised of industry leaders from throughout the province representing every sector of the tourism industry.

Please be assured that we are supportive of incremental investment in tourism marketing for the City of Winnipeg. Indeed Travel Manitoba and Destination Winnipeg collaborate on all aspects of destination marketing. In partnership with the hotel consortium and the Winnipeg Convention Centre, we are integral partners in attracting meetings and conventions and major events. In this regard we are most cognizant of the growing competition and product pricing for this vital segment of our economy.

We also understand and support the need for an accommodation levy when the revenues are dedicated to further growth of the tourism sector. Your public pronouncements have corroborated that approach. Our concerns remain around levy thresholds, implementation timelines and revenue utilization confirmation.

We believe that the current potential for a 5 to 7 percent increase in room levies is excessive and has implications for negative market impact, particularly in the price sensitive group tour and convention markets. While we feel that the levies under consideration may be too high for the market to bear, an implementation strategy of any level must take tour operator and convention contracts into account. We hope and would expect that adequate notification is provided to accommodate local tour operators and wholesalers that have existing contracts in the marketplace. Such contracts would have no capacity to make price adjustments.

Most significantly, in order to improve our competitive position in the tourism marketplace, we believe it is critical that the revenues derived from any accommodation levy be dedicated to incremental destination marketing and events acquisition. Over the past few years the collective efforts of Travel Manitoba, Destination Winnipeg, attractions and events, hotels and convention facilities have developed a results oriented partnership that is envied by other destinations.

The decision that City Council takes on the application of a hotel accommodation tax will, to a considerable degree, determine the future direction of these partnerships and our collective capacity to grow tourism in Winnipeg and Manitoba. We encourage further consultation on this important issue in order to ensure that the best decision is made for the long term.

Sincerely,

Paul Robson

Paul Robson
Chair, Travel Manitoba

cc: Hubert Mesman, Travel Manitoba
Sherwood Armbruster, Mayor's Office
Leo Ledohowski, Manitoba Hotel Association
Jim Baker, Manitoba Hotel Association
Minister Eric Robinson, Province of Manitoba
Sandra Hardy, Province of Manitoba
Nick Logan, Destination Winnipeg
Stu Duncan, Destination Winnipeg