Agenda - Executive Policy Committee - October 3, 2008

REPORTS

Item No. 4 Establishment of a Destination Marketing Reserve Fund
File FL

WINNIPEG PUBLIC SERVICE RECOMMENDATION:

1. That a Destination Marketing Reserve Fund be established, and that the Chief Financial Officer be named as Fund Manager.

2. That the Destination Marketing Reserve Fund provide funding to support organizations, projects and special events that will encourage tourists to visit Winnipeg, as referred to in the details of this report, including the following:

    - Grant of $2.0 million annually to Destination Winnipeg Inc.
    - Grant of $1.5 million annually to the Winnipeg Convention Centre.
    - The Destination Marketing Reserve Fund to fund any expenses incurred in the General Revenue Fund to administer the Accommodation Tax.
    - Up to 40% of the annual Accommodation Tax revenue be set aside within the Destination Marketing Reserve Fund to fund future capital works for the Winnipeg Convention Centre.
    - Dispositions from the Destination Marketing Reserve Fund for this purpose require approval of Council.
    - Remainder of the funds, net of the above, paid to Destination Winnipeg Inc. for the Special Event Marketing Fund.
    - Dispositions from the Destination Marketing Reserve Fund for this purpose require approval of the Fund Manager.

3. That the Destination Marketing Reserve Fund be established January 1, 2009.

4. That the Destination Marketing Reserve Fund be funded by the Accommodation Tax that became effective June 1, 2008 per Accommodation Tax By-law No. 70/2008.

5. That Council appoint City representatives to the Special Event Marketing Fund Partnership Committee as referred to in the details of this report.

6. That the proper officers of the City do all things necessary to implement the intent of the foregoing.

RE: Establishment of a Destination Marketing Reserve Fund

FOR SUBMISSION TO: Executive Policy Committee

ORIGINAL REPORT SIGNED BY: Chief Financial Officer

REPORT DATE: September 26, 2008

RECOMMENDATIONS:

1. That a Destination Marketing Reserve Fund be established, and that the Chief Financial Officer be named as Fund Manager.

2. That the Destination Marketing Reserve Fund provide funding to support organizations, projects and special events that will encourage tourists to visit Winnipeg, as referred to in the details of this report, including the following:

    - Grant of $2.0 million annually to Destination Winnipeg Inc.
    - Grant of $1.5 million annually to the Winnipeg Convention Centre.
    - The Destination Marketing Reserve Fund to fund any expenses incurred in the General Revenue Fund to administer the Accommodation Tax.
    - Up to 40% of the annual Accommodation Tax revenue be set aside within the Destination Marketing Reserve Fund to fund future capital works for the Winnipeg Convention Centre.
        - Dispositions from the Destination Marketing Reserve Fund for this purpose require approval of Council.
    - Remainder of the funds, net of the above, paid to Destination Winnipeg Inc. for the Special Event Marketing Fund.
        - Dispositions from the Destination Marketing Reserve Fund for this purpose require approval of the Fund Manager.

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3. That the Destination Marketing Reserve Fund be established January 1, 2009.

4. That the Destination Marketing Reserve Fund be funded by the Accommodation Tax that became effective June 1, 2008 per Accommodation Tax By-law No. 70/2008.

5. That Council appoint City representatives to the Special Event Marketing Fund Partnership Committee as referred to in the details of this report.

6. That the proper officers of the City do all things necessary to implement the intent of the foregoing.

Report Summary

Key Issues:

- City Council approved the Accommodation Tax By-law No. 70/2008 on April 23, 2008 per the report of the Chief Financial Officer dated April 16, 2008.
- City Council adopted the recommendation "That the Winnipeg Public Service report before year end regarding the establishment of a reserve" for the new Accommodation Tax.
- This report recommends the establishment of a special purpose reserve to account for the use of the Accommodation Tax revenue received.
- The reserve will be named Destination Marketing Reserve Fund and will be established January 1, 2009.
- The Destination Marketing Reserve Fund will be funded by the Accommodation Tax collected on accommodations of short-term duration in the City of Winnipeg, per Accommodation Tax By-law No. 70/2008.
- Use of funds will include:
    - Grant of $2.0 million annually to Destination Winnipeg Inc.
    - Grant of $1.5 million annually to the Winnipeg Convention Centre.
    - The Destination Marketing Reserve Fund to fund any expenses incurred in the General Revenue Fund to administer the Accommodation Tax.
    - Up to 40% of the annual Accommodation Tax revenue to be set aside within the Destination Marketing Reserve Fund to fund future capital works for the Winnipeg Convention Centre.
        - Dispositions from the Destination Marketing Reserve Fund for this purpose require approval of Council.
    - Remainder of the funds, net of the above, paid to Destination Winnipeg Inc. for the Special Event Marketing Fund.
        - Dispositions from the Destination Marketing Reserve Fund for this purpose require approval of the Fund Manager.

- The Fund Manager will be the Chief Financial Officer.

Implications of the Recommendation(s):

General Implications

() None
( ) For the organization overall and/or for other departments
(X) For the community and/or organizations external to the City
( ) Involves a multi-year contract

Comment(s):
The Destination Marketing Reserve Fund will be used to fund external organizations and to provide funding to Destination Winnipeg Inc. for the Special Event Marketing Fund.

Policy Implications
(X) No
( ) Yes
Comment(s):

Regulatory Implications
(X) None
( ) Eliminates or reduces regulatory impact
( ) Proposes regulatory impact

Comment(s):

Environmental Implications
(X) No
( ) Yes
Comment(s):

Human Resources Implications
(X) No
( ) Yes

Comment(s):

Financial Implications
( ) Within approved current and/or capital budget
(X) Current and/or capital budget adjustment required

Comment(s): As noted in the Financial Impact Statement, there is net mill rate support for the three-year budget period 2009-2011 in the General Revenue Fund resulting from the fact that net expenditures currently forecasted in the General Revenue Fund are greater than those being transferred to the Destination Marketing Fund Reserve.

Report

REASON FOR THE REPORT:

On April 23, 2008, City Council concurred in the recommendation of the Executive Policy Committee – specifically clause 3:

- "That the Winnipeg Public Service report before year end regarding the establishment of a reserve" for the new Accommodation Tax.

Council has authority to establish or maintain a reserve fund for any purpose for which the City has authority to make expenditures.

HISTORY:

On March 26, 2008, City Council adopted the following recommendation as part of the 2008 operating budget:

6. A. That a by-law establishing a 5% hotel tax effective June 1, 2008 be enacted.
   B. That once enacted by Council the by-law be forwarded to the Lieutenant Governor in Council for approval as required by The Municipal Revenue (Grants and Taxation) Act.

On April 23, 2008, City Council approved the Accommodation Tax By-law No. 70/2008.

On May 7, 2008, the Province informed the City that the Accommodation Tax was approved by the Lieutenant Governor in Council, thus receiving the required Provincial approval.

The By-law came into force on June 1, 2008. Accommodation providers are required to charge a 5% levy on the purchase price of accommodation consumed and paid for after May 31, 2008 and remit funds collected to the City of Winnipeg.

DISCUSSION:

This report provides the parameters for the establishment of a Destination Marketing Reserve Fund to account for the Accommodation Tax revenue and disbursement of funds, as follows:

Purpose of Fund

The Destination Marketing Reserve Fund will support Destination Winnipeg Inc., the Winnipeg Convention Centre, and special events including other organizations, projects and events that will encourage tourists to visit Winnipeg.

Source of Funds (see Table 1 for cash flow projection)

- The Accommodation Tax (5%) collected on accommodations of short-term duration in the City of Winnipeg per Accommodation Tax By-law 70/2008.
- Interest earned on the balance of funds retained in the Destination Marketing Reserve Fund.

Use of Funds (see Table 1 for cash flow projection)

- Grant of $2.0 million annually to Destination Winnipeg Inc.
- Grant of $1.5 million annually to the Winnipeg Convention Centre.
- The Destination Marketing Reserve Fund to fund any expenses incurred in the General Revenue Fund to administer the Accommodation Tax.
- Up to 40% of the annual Accommodation Tax revenue to be set aside within the Destination Marketing Reserve Fund to fund future capital works for the Winnipeg Convention Centre.
    - Dispositions from the Destination Marketing Reserve Fund for this purpose require approval of Council.
- Remainder of the funds, net of the above, paid to Destination Winnipeg Inc. for the Special Event Marketing Fund. This fund will be used to seek events or respond to opportunities to attract events that generate significant economic impact for the City of Winnipeg and provide a good return on investment. Additional information prepared by Destination Winnipeg Inc. regarding the Special Event Marketing Fund is included in Appendix 1.
    - Dispositions from the Destination Marketing Reserve Fund for this purpose require approval of the Fund Manager.

Fund Manager

Chief Financial Officer.

Effective Date

The Destination Marketing Reserve Fund reserve will be established January 1, 2009.

Accounting for Fund

The 5% Accommodation Tax will be budgeted directly in the Destination Marketing Reserve Fund. There will be no transfers from the General Revenue Fund. Likewise, any approved disbursements will be directly accounted for in the Destination Marketing Reserve Fund. A transfer to the General Revenue Fund is authorized to recover any administrative costs incurred in the General Revenue Fund during the year to administer the Accommodation Tax By-law. Interest earned on the balance of funds throughout the year in the Destination Marketing Reserve Fund will be disbursed in accordance with the operation of the Destination Marketing Reserve Fund.

Disbursement of Grants to Destination Winnipeg Inc. and Winnipeg Convention Centre
Council, through the annual budget process, is required to approve the amount of grants paid to Destination Winnipeg Inc. and the Winnipeg Convention Centre each year. These approved amounts will be disbursed by the Fund Manager.

Disbursement of Funds for Future Capital Works for the Winnipeg Convention Centre
Council will be required to approve the amount and disbursement of funds set aside in the Destination Marketing Reserve Fund to fund future capital works for the Winnipeg Convention Centre. See Note 4 in Table 1.

Disbursement of Funds to the Special Event Marketing Fund
The Fund Manager will approve the disbursement of funds to be paid to Destination Winnipeg Inc. for the Special Event Marketing Fund. The Special Event Marketing Fund will be managed by Destination Winnipeg Inc. on behalf of the City of Winnipeg as a separate, segregated fund held by Destination Winnipeg Inc. This would not be part of Destination Winnipeg Inc. Operating Budget, but would be noted, accountable and audited in Destination Winnipeg Inc. Annual Report and Financial Statements which are provided to the City of Winnipeg annually.

Destination Winnipeg Inc. and the City of Winnipeg's intention on the Special Event Marketing Fund is to continue to build on Winnipeg's success and both proactively go after and to respond to opportunities to attract mid-size and large events that generate significant economic impacts for the city and a good return on investment.

The Fund Manager will approve the disbursement amounts from the Destination Marketing Reserve Fund on a regular basis to Destination Winnipeg Inc. for the Special Event Marketing Fund to be managed in a separate, segregated account by Destination Winnipeg Inc. This fund is not for capital contributions for facilities; that is beyond the scope of the fund.

The Special Event Marketing Fund Partnership Committee will recommend the level of bid support, and in cases of awarded events, the disbursement of monies from the Fund for specific events that meet criteria as described in Appendix 1. Disbursements will require support documentation and authorized signatures from both Destination Winnipeg Inc. and the Destination Marketing Reserve Fund Manager.

The Special Event Marketing Fund Partnership Committee would serve as the review and decision-making authority. The Committee will be comprised of five representatives as follows:

- Two representatives from Destination Winnipeg Inc.
- Two representatives from the City of Winnipeg
- President of the Manitoba Hotel Association.

Meetings would be called by Destination Winnipeg Inc. as opportunities arise and in some cases to review applications. Support for events would be based on established

criteria and require formal Committee approval. A designated representative from Destination Winnipeg Inc. would be responsible for ongoing administration.

Administration Costs of Destination Marketing Reserve Fund

There will be a transfer to the General Revenue Fund in each year for the administration costs required to administer the Accommodation Tax By-law, as approved by the Fund Manager. Administrative costs include staff time for collection, analysis and reporting of the accommodation tax revenue received and refunds processed per the By-law, audit and review costs, system development, printing and postage costs for direct mailings to accommodation providers, advertisements in local newspapers, and any other printing and related costs for brochures and communication material.

Summary

The Destination Marketing Reserve Fund will serve to account for all Accommodation Taxes collected by the City. It is anticipated that grants to Destination Winnipeg Inc. will increase by over $1 million annually including a permanent increase in unrestricted grants of approximately $700,000 and over $700,000 directed to the Special Event Marketing Fund. In addition, the City of Winnipeg will continue to pay annual grants of over $2 million to the Winnipeg Convention Centre with $1.5 million being advanced from the Destination Marketing Reserve Fund and the balance from the General Revenue Fund. Up to 40% of the Destination Marketing Reserve Fund will be set aside to fund future capital improvements at the Winnipeg Convention Centre.

TABLE 1
DESTINATION MARKETING RESERVE FUND
CASH FLOW PROJECTION 2009-2011 (THREE-YEAR BUDGET HORIZON)

	2009	2010	2011
Revenue:			
5% Accommodation Tax (Note 1)	7,200,000	7,200,000	7,200,000
Interest earned (Note 2)	-	-	-
Total Revenue	7,200,000	7,200,000	7,200,000
Expenses:			
Grants			
Destination Winnipeg	2,000,000	2,000,000	2,000,000
Convention Centre	1,500,000	1,500,000	1,500,000
Special Event Marketing Fund (Note 3)	760,000	760,000	760,000
Transfer to General Revenue Fund - Admin Costs	60,000	60,000	60,000
Total Expenses	4,320,000	4,320,000	4,320,000
Net Revenue	2,880,000	2,880,000	2,880,000
Reserve Balance, Beginning of Year	-	2,880,000	5,760,000
Reserve Balance, End of Year (Note 4)	2,880,000	5,760,000	8,640,000

Note 1: The annual estimate of $7.2 million for Accommodation Tax revenue is based on the best available information at the time of preparation of this report. Actual revenue per year will differ due to fluctuations in taxable accommodation in the city of Winnipeg

Note 2: There is no "Interest earned" revenue reported here for conservatism based on the uncertainty of the level of funds remaining in the reserve each year.

Note 3: The Special Event Marketing Fund is dedicated to the acquisition of projects and events that will encourage tourists to visit Winnipeg. This fund will be managed by Destination Winnipeg Inc.

Note 4: 40% of the Accommodation Tax collected per year set aside in the reserve to fund future capital works for the Convention Centre. Per Note 1, the annual Accommodation Tax revenue is estimated at $7.2 million. Given that actual Accommodation Tax will differ each year, the annual contribution (up to 40% of the Accommodation Tax collected) will also change as a result.

Financial Impact Statement

Date: September 25, 2008

Project Name:
Destination Marketing Reserve Fund

First Year of Program **2009**

	2009	2010	2011	2012	2013
Capital					
Capital Expenditures Required					
Less: Existing Budgeted Costs					
Additional Capital Budget Required	$ -	$ -	$ -	$ -	$ -
Funding Sources:					
Debt - Internal					
Debt - External					
Grants (Enter Description Here)					
Reserves, Equity, Surplus					
Other - Enter Description Here					
Total Funding	$ -	$ -	$ -	$ -	$ -
Total Additional Capital Budget Required	$ -				
Total Additional Debt Required	$ -				
Current Expenditures/Revenues					
Direct Costs	$ 237,000	$ 237,000	$ 237,000		
Less: Incremental Revenue/Recovery	-	-	-		
Net Cost/(Benefit)	$ 237,000	$ 237,000	$ 237,000	$ -	$ -
Less: Existing Budget Amounts	-	-	-		
Net Budget Adjustment Required	$ 237,000	$ 237,000	$ 237,000	$ -	$ -

Additional Comments: There is net mill rate support of $237,000 for for each year starting in 2009 based on the City's forecasted budgets. This relates to the difference between annual net expenditures forecasted in the General Revenue Fund and the amounts forecasted as net expenditures transferred to the Destination Marketing Reserve Fund.

[original signed by]
Brad Cull, CA
Manager of Taxation and Finance
Assessment and Taxation Department

IN PREPARING THIS REPORT THERE WAS:

Internal Consultation With and Concurrence By:
Corporate Finance, Legal Services

External Consultation With:
Destination Winnipeg Inc.

THIS REPORT PREPARED BY:

Assessment and Taxation Department
Prepared by: Nelson Karpa, City Assessor / Director

APPENDIX 1

September 25, 2008

Special Event Marketing Fund

Background:
In June 2008, the City of Winnipeg established a new Accommodation Tax that will go to three tourism-related areas – funding for the Winnipeg Convention Centre/expansion, support to Destination Winnipeg, and a Special Event Marketing Fund for City support for events.

Destination Winnipeg, the City of Winnipeg and Winnipeg hotels, all agree on the need to increase funding for city marketing and to provide funds to compete for event acquisition. Events-based tourism is broadly defined to include conventions, sports and special events, the creation of new events, and the incremental expansion of existing events.

Destination Winnipeg's Operating Budget and the Special Event Marketing Fund are two different, but integrally related, funding pools. For the City of Winnipeg, increased Operating Funding to Destination Winnipeg, its arms-length marketing services agency increases Winnipeg's ability to market the city and grow tourism business, and providing financial funding to a Special Event Marketing Fund enables Winnipeg to better compete for going after events in a very competitive environment where other cities are providing financial incentives for events tourism.

Objectives:
Destination Winnipeg and the City of Winnipeg's intention on the Special Event Marketing Fund is to continue to build on Winnipeg's success and both proactively go after and to respond to opportunities to attract mid-size and large events that generate significant economic impacts for the city and a good return on investment.

Fund:
The *Special Event Marketing Fund,* funded from part of the Accommodation Tax, would be managed by Destination Winnipeg on behalf of the City of Winnipeg as a separate, segregated fund held by Destination Winnipeg. This would not be part of Destination Winnipeg's Operating Budget, but would be noted, accountable and audited in Destination Winnipeg's Annual Report and Financial Statements. The Special Event Marketing Fund would receive up to $1 million annually from the City of Winnipeg's Accommodation Tax. Some years will be higher/lower and would also build reserves as part of prudent fiscal management and for future large-scale needs. The City of Winnipeg will transfer amounts from their Accommodation Tax Reserves on a regular basis to the Special Event Marketing Fund managed in a separate, segregated account by Destination Winnipeg. This fund is <u>not</u> for capital contributions for facilities, that is beyond the scope of the fund.

Disbursement of Funds:
The Committee will recommend the level of bid support, and in cases of awarded events, the disbursement of monies from the Fund for specific events that meet criteria. Disbursements will require support documentation and authorized signatures from the senior representative of both Destination Winnipeg and the City of Winnipeg.

Committee:
The Special Event Marketing Fund Partnership Committee would serve as the review and decision-making authority. The Committee of a maximum of five representatives would be chaired by Destination Winnipeg, with representation from Destination Winnipeg (2 - President or Director Tourism and designated Event Manager), the City of Winnipeg (2 - senior official from Mayor's Office and other department) and Winnipeg hotels represented by the President of the Manitoba Hotel Association. Meetings would be called by Destination Winnipeg as opportunities arise and in some cases to review applications. Support for events would be based on established criteria and require formal Committee approval. A designated representative from Destination Winnipeg would be responsible for ongoing administration.

Criteria:
Criteria for event support is developed by Destination Winnipeg as the lead in attracting events and conventions to Winnipeg and, building on these criteria, the Special Event Marketing Fund would refine specific criteria, eligibility and other requirements. The Convention Development Account, currently managed by Destination Winnipeg, in a separate, segregated fund, would be rolled into the Special Event Marketing Fund as a separate component focused on convention development support. The criteria and dollar amounts for the Convention Development Account is well defined and systemic.

Major sports and special events have been defined as a minimum of 1,000 participant-days and 1,000 total room-nights. This Fund is <u>not</u> for small and local events. By nature, major sporting and special events have to be reviewed differently, case-by-case, and often a specific rights fee, grant or amount is required to compete in bids and/or secure major events. The discipline of Return on Investment and Economic Impact is fundamental in considering support levels in all cases. Destination Winnipeg currently provides this expertise and assistance to both the Province and the City for assessing financial support for major events.

To ensure consistency in bids and evaluation, applicants would work with or be directed to Destination Winnipeg on submissions for such funding, usually in Bid/Proposal development, and in parallel with Provincial requests and programs for support of major events. Applicants could be organizations such as sports associations, arts groups, museums, venues such as the MTS Centre, Canad Inns Stadium, Pan Am Pool, Winnipeg Soccer Centre, Red River Exhibition, University of Winnipeg, University of Manitoba, Red River College and the Winnipeg Convention Centre as well as joint Travel Manitoba-Destination Winnipeg initiatives such as Manitoba Homecoming 2010. Destination Winnipeg would continue to track major events, associated economic impacts and hotel room-nights.

Front Lines:
Destination Winnipeg is the City's Destination Marketing Organization - Winnipeg's arms-length agency with a mandate for marketing the city. In terms of tourism services, Destination Winnipeg is the city marketing agency for attracting and servicing meetings and conventions, sports and special events, group and travel trade business to Winnipeg. Destination Winnipeg provides a consistent, unified approach to event acquisition. Marketing and sales activities are in partnership with the tourism industry and are measurable. Destination Winnipeg consults and works with specific venues (such as the MTS Centre, Winnipeg Convention Centre) and partners, depending on the event. Destination Winnipeg is on the front lines in bidding for events, so administration is cost-effective, and in the case of convention development support is already done is a separate, segregated account.

Recognition:
The City of Winnipeg would continue to receive appropriate credit and recognition for any financial support to sports and special events. The Fund is being managed by Destination Winnipeg and a Partnership Committee on behalf of the City of Winnipeg. As is the current case, the Province of Manitoba and the City of Winnipeg often provide financial support for major events and both receive appropriate recognition. Under this new Fund, The City of Winnipeg is continuing to work with the Province on supporting major events, but now through a Partnership Committee with event expertise and effective processes.