Agenda – Executive Policy Committee – September 12, 2018

REPORTS

Item No. 10 Destination Marketing Reserve Fund – Revised Funding Allocation

WINNIPEG PUBLIC SERVICE RECOMMENDATION:

1. That City Council revise the funding allocation as previously approved on October 22, 2008 for the Destination Marketing Reserve Fund, as follows:

    a) That a grant be provided annually to Economic Development Winnipeg in an amount equal to the greater of $2.0 million or 35% of the annual Accommodation Tax revenue, which grant shall be used solely to fund Economic Development Winnipeg's annual operating costs;
    b) That a grant of $1.5 million be provided annually to the Winnipeg Convention Centre Corporation, which grant shall be used solely to fund the Winnipeg Convention Centre's annual operating costs;
    c) That up to 37.5% 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;
    d) That the Destination Marketing Reserve Fund is to fund any expenses incurred in the General Revenue Fund to administer the Accommodation Tax;
    e) That the remainder of the funds, net of the above, be paid to Economic Development Winnipeg for the Special Event Marketing Fund.

2. That Economic Development Winnipeg provides to the City of Winnipeg the criteria used in the calculation of the final grant payments made from the Special Events Marketing Fund, in a form that is satisfactory to the Chief Financial Officer.

3. That the City enter into, execute and deliver a grant agreement with Economic Development Winnipeg that sets out the terms and conditions of the City's grants as set forth in Recommendation 1(a) and (e), and that the Chief Financial Officer be authorized to negotiate and approve the terms and conditions of such grant agreement in accordance with this report and such other terms and conditions deemed necessary by the City Solicitor / Director of Legal Services to protect the interests of the City.

4. That the City enter into, execute and deliver a grant agreement with the Winnipeg Convention Centre Corporation that sets out the terms and conditions of the City's grants as set forth in Recommendation 1(b) and (c), and that the Chief Financial Officer be authorized to negotiate and approve the terms and conditions of such grant agreement in accordance with this report and such other terms and conditions deemed necessary by the City Solicitor / Director of Legal Services to protect the interests of the City.

WINNIPEG PUBLIC SERVICE RECOMMENDATION (continued):

5. That the proper officers of the City be authorized to do all things necessary to implement the intent of the foregoing

ADMINISTRATIVE REPORT

Title: Destination Marketing Reserve Fund – Revised Funding Allocation

Critical Path: Executive Policy Committee – Council

AUTHORIZATION

Author	Department Head	CFO	A/CAO
T. Austin	M. Chambers	Mike Ruta	Dave Wardrop

EXECUTIVE SUMMARY

The Public Service is recommending the funding allocation to the Winnipeg Convention Centre be reduced to 37.5% of the total accommodation tax revenue which is approximately $252,000; this reduction in funding will not impact the City's commitment to the Winnipeg Convention Centre.

The change in the funding allocation, along with the elimination of the cap on payments made to the Special Events Marketing Fund, will increase funding and allow for future accommodation tax growth to be allocated to the Special Events Marketing Fund.

Increased funding would assist in attracting future events similar to past successes such as the Juno Awards, the CFL Grey Cup, the NHL Heritage Classic, the CN Canadian Women's Open and the Canada Summer Games.

RECOMMENDATIONS

1. That City Council revise the funding allocation as previously approved on October 22, 2008 for the Destination Marketing Reserve Fund, as follows:

    a) That a grant be provided annually to Economic Development Winnipeg in an amount equal to the greater of $2.0 million or 35% of the annual Accommodation Tax revenue, which grant shall be used solely to fund Economic Development Winnipeg's annual operating costs;
    b) That a grant of $1.5 million be provided annually to the Winnipeg Convention Centre Corporation, which grant shall be used solely to fund the Winnipeg Convention Centre's annual operating costs;
    c) That up to 37.5% 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;
    d) That the Destination Marketing Reserve Fund is to fund any expenses incurred in the General Revenue Fund to administer the Accommodation Tax;

e) That the remainder of the funds, net of the above, be paid to Economic Development Winnipeg for the Special Event Marketing Fund.

2. That Economic Development Winnipeg provides to the City of Winnipeg the criteria used in the calculation of the final grant payments made from the Special Events Marketing Fund, in a form that is satisfactory to the Chief Financial Officer.

3. That the City enter into, execute and deliver a grant agreement with Economic Development Winnipeg that sets out the terms and conditions of the City's grants as set forth in Recommendation 1(a) and (e), and that the Chief Financial Officer be authorized to negotiate and approve the terms and conditions of such grant agreement in accordance with this report and such other terms and conditions deemed necessary by the City Solicitor / Director of Legal Services to protect the interests of the City.

4. That the City enter into, execute and deliver a grant agreement with the Winnipeg Convention Centre Corporation that sets out the terms and conditions of the City's grants as set forth in Recommendation 1(b) and (c), and that the Chief Financial Officer be authorized to negotiate and approve the terms and conditions of such grant agreement in accordance with this report and such other terms and conditions deemed necessary by the City Solicitor / Director of Legal Services to protect the interests of the City.

5. That the proper officers of the City be authorized to do all things necessary to implement the intent of the foregoing

REASON FOR THE REPORT

As part of the 2018 Operation Budget, City Council adopted the following recommendation:

> *T. That the Public Service prepare a report to the appropriate Committee of Council within 120 days recommending options to utilize unspent funds in the Destination Marketing Reserve to support the following initiatives:*
>
> *i. An enhanced tourism and events strategy which will supplement funding dedicated to the existing Special Events Marketing Fund up to a combined total of 25% of annual proceeds from Accommodation Taxes collected. The Manitoba Hotel Association in consultation with Economic Development Winnipeg Inc. and Tourism Winnipeg would develop criteria for the additional funding;*

Recommendation "T" also included parts ii and iii which are being addressed through separate administrative reports.

Only City Council has the authority to change how funds are distributed in the Destination Marketing Reserve Fund.

IMPLICATIONS OF THE RECOMMENDATIONS

There are no financial implications to the City of Winnipeg as the revised funding allocation will continue to equal the amount of the annual Accommodation Tax revenue generated.

The implications to Economic Development Winnipeg and the Convention Centre have been provided in Appendix 3 of the report. On an annual basis, Economic Development Winnipeg will see an increase to the Special Events Marketing Fund, whereas the Convention Centre – Restricted Capital will be reduced. This reduction in funding will not impact the City's commitment to the Winnipeg Convention Centre.

It should be noted that on September 30, 2015, Council approved a set of recommendations for addressing the repayment of the $33 million loan guaranteed by the City of Winnipeg relating to the Winnipeg Convention Centre expansion. The recommendations contained herein do not impact Council's September 30, 2015 decisions.

HISTORY/DISCUSSION

On April 23, 2008, City Council approved the Accommodation Tax By-law No. 70/2008 with an effective date of June 1, 2008. The Accommodation Tax provides for a 5% tax to be charged on short-term accommodation within the City of Winnipeg.

On October 22, 2008, City Council established the Destination Marketing Reserve Fund the purpose of which was to provide a mechanism for the disbursement of Accommodation Tax revenue to support organizations, projects and special events that encourage tourists to visit Winnipeg.

Since its inception, the Destination Marketing Reserve Fund has distributed Accommodation Tax revenues within a set of defined parameters and estimated cash-flows. Over time, these parameters have resulted in unspent funds accumulating within the Reserve.

As part of the 2018 Operation Budget, City Council adopted the following recommendation:

> *T. That the Public Service prepare a report to the appropriate Committee of Council within 120 days recommending options to utilize unspent funds in the Destination Marketing Reserve to support the following initiatives:*
>
> > *i. An enhanced tourism and events strategy which will supplement funding dedicated to the existing Special Events Marketing Fund up to a combined total of 25% of annual proceeds from Accommodation Taxes collected. The Manitoba Hotel Association in consultation with Economic Development Winnipeg Inc. and Tourism Winnipeg would develop criteria for the additional funding;*

As a result of a recent review of the Destination Marketing Reserve Fund, the Public Service is recommending a change in the funding allocation which will maintain the effective percentage of total Accommodation Tax revenue that has been paid to Economic Development Winnipeg over

the past several years, the elimination of the cap on the payments made to the Special Events Marketing Fund and a decrease in funding for the Winnipeg Convention Centre restricted capital component.

Special Events Marketing Fund

The Special Event Marketing Fund is managed by Tourism Winnipeg (a Division of Economic Development Winnipeg) in partnership with the City of Winnipeg.

The Special Events Marketing Fund was specifically established to attract regional, national and international meetings, conventions or sports and special events that generate an economic impact as well as attract more visitors to the City of Winnipeg. The fund provides an opportunity for Winnipeg to compete in attracting events which the City might not otherwise be able to consider.

Funding under the Special Events Marketing Fund is designated into two categories: (i) meetings and conventions, and; (ii) amateur sports and special events and are approved by a five member committee with representatives from the City of Winnipeg, Tourism Winnipeg, Economic Development Winnipeg and the Manitoba Hotel Association.

Special Events Marketing Fund has criteria in place to consider organizations that have already received a prior grant. However in these cases the events must be national or international in nature and meet the minimum requirement of room nights and must not be an annual recurring event. In addition, the Special Events Marketing Fund will only consider funding an event where there is competition with another destination.

Funding decisions are based on a formula which considers the economic impact of the event for the City. The funding formula considers:

- Number of room rates x average hotel rate
- Number of delegates x 3.5 nights (average delegate spend minus the average hotel rate)
- Total budget spent in Winnipeg for applicable costs
- Extra 1.25% is given if it is in the off-season,
- Extra 1.25% if it is U.S. or International
- Extra 1.25% based on special circumstances

At the conclusion of the event and prior to the payment of a grant from the Special Events Marketing Fund, Economic Development Winnipeg reviews financial information from the event to determine that all the criteria have been met. This includes but is not limited to the number of room rentals and the use of City of Winnipeg and Tourism Winnipeg logos. For example, if the group does not meet the number of room blocks or actualize the number of rooms they predicted, the amount of the grant will be adjusted downward to reflect the actual economic benefit.

To date, the Special Events Marketing Fund has committed a total contribution of over $10 million to over 180 conventions and major events spanning 2009-2023. The effect of these events collectively represents approximately $172 million in direct expenditures within Winnipeg.

A few examples of the higher-profile events that have been attracted with the use of Special Events Marketing Funding include: the Juno Awards, the CFL Grey Cup, the NHL Heritage

Classic, the CN Canadian Women's Open and the Canada Summer Games. These events not only brought visitors to the city, but also put Winnipeg in the national and international spotlight.

Current Funding Allocation

The current funding allocation for the Special Events Marketing Fund is based on rules outlined in the Destination Marketing Reserve Fund provided below. The contribution to the Special Events Marketing Fund is determined under item 5 below after items 1 through 4 have been determined.

The current funding is determined by the following parameters:

1. Grant paid to Economic Development Winnipeg is equal to the greater of $2.0 million or 30% of the annual Accommodation Tax revenue.

2. Grant of $1.5 million annually to the Winnipeg Convention Centre.

3. Up to 40% of the annual Accommodation Tax revenue, to a maximum of the estimated annual payments required to service the amount of future debt that will be allocated to the City's portion of construction costs relating to a planned expansion at the Winnipeg Convention Centre, to be set aside within the Destination Marketing Reserve Fund. Dispositions from the Destination Marketing Reserve Fund for this purpose require approval of Council.

4. Funding of expenses incurred in the General Revenue Fund to administer the Accommodation Tax.

5. Remainder of the funds, net of the above, are paid to Economic Development Winnipeg for the Special Event Marketing Fund. If yearly contributions to the Special Event Marketing Fund exceed $1.0 million, any excess above this amount will be paid to Economic Development Winnipeg in the form of an additional operating grant.

The amount of funding available for the Special Events Marketing Fund has fluctuated since the implementation of the Accommodation Tax in 2008. In 2016, the Special Events Marketing Fund received the maximum funding of $1 million for the first time. The $1.0 million maximum funding was also reached in 2017 and is forecasted to be reached again in 2018 (See: Appendix 1).

Under the current funding allocation, as the Special Events Marketing Fund grant is capped at $1 million, any residual amount is then transferred to Economic Development Winnipeg in the form of an additional operating grant. In 2016 and 2017, Economic Development Winnipeg received an additional operating grant of approximately $398,000 and $494,000, respectively. The 2018 additional operating grant is projected to be approximately $509,000 (See: Appendix 1). Since 2016, the operating grant to Economic Development Winnipeg has resulted in its effective percentage share of the Accommodation Tax revenue being approximately 35%. (NOTE: This includes the 30% existing operating grant plus 5% from the additional operating grant related to amounts over the Special Events Marketing Fund $1.0 million cap. See: Appendix 2)

Since the current funding allocation caps the Special Events Marketing Fund at $1 million, the fund does not share in the benefit of increasing growth in the Accommodation Tax revenue once the cap is reached. As a result the Special Events Marketing Fund is limited to pursuing events up to its maximum funding level which may restrict the number of larger events it may attempt to attract to the City.

In considering a revised funding allocation, the unspent funds in the Destination Marketing Reserve Fund was reviewed to determine the best way to utilize these unspent funds as additional payments to benefitting organizations. During this review, it was determined that the total operating grant to Economic Development Winnipeg has effectively increased to approximately 35% of the total Accommodation Tax revenue and the Special Events Marketing Fund has received the $1.0 million maximum under the current funding rules since 2016. It was also noted that the funding for the Winnipeg Convention Centre expansion (which is set at 40% under current funding rules of the total Accommodation Tax revenue) has been the key contributor to the unspent funds in the Destination Marketing Reserve Fund.

In order to assist in alleviating some of the resource constraints in the Special Events Marketing Fund and to maintain Economic Development Winnipeg funding to the 2018 projected levels, a revised funding allocation is being recommended.

Revised Funding Allocation

The revised funding allocation would consist of the following rules:

a. That a grant be provided annually to Economic Development Winnipeg in an amount equal to the greater of $2.0 million or 35% of the annual Accommodation Tax revenue, which grant shall be used solely to fund Economic Development Winnipeg's annual operating costs;

b. That a grant of $1.5 million be provided annually to the Winnipeg Convention Centre Corporation, which grant shall be used solely to fund the Winnipeg Convention Centre's annual operating costs;

c. That up to 37.5% 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;

d. That the Destination Marketing Reserve Fund is to fund any expenses incurred in the General Revenue Fund to administer the Accommodation Tax;

e. That the remainder of the funds, net of the above, be paid to Economic Development Winnipeg for the Special Event Marketing Fund.

As part of the revised funding allocation Economic Development Winnipeg will provide to the City of Winnipeg the criteria used in the calculation of the final grant payments made from the Special Events Marketing Fund in a form that is satisfactory to the Chief Financial Officer of the City of Winnipeg.

The revised funding allocation would ensure that the fixed effective annual operating grant for Economic Development Winnipeg remains at 35%. This would result in virtually no change in the existing funding amount Economic Development Winnipeg is projected to receive as the

total grant in 2018 is projected to be approximately 35% of the total Accommodation Tax revenue. In addition, the cap for the Special Events Marketing Fund would be fully eliminated. This will result in approximately $252,000 of additional revenue being available to the Special Events Marketing Fund over and above the $1.0 million cap. On a percentage basis, the Special Events Marketing Fund would receive approximately 12.2% of the projected 2018 Accommodation Tax revenue. Since the Special Events Marketing Fund would receive a percentage of the Accommodation Tax under the revised funding allocation, there would be a potential for increased funding to the Special Events Marketing Fund from the growth in Accommodation Tax revenue (SEE: Appendix 3 and 4).

It should be noted that in order to implement the revised funding allocation, the funding to Winnipeg Convention Centre restricted capital would need to be reduced from 40% to 37.5%. However this funding adjustment will not impact the City's commitment to the Winnipeg Convention Centre as the unspent funds in the reserve will offset the reduction in funding.

FINANCIAL IMPACT

Financial Impact Statement **Date:** August 21, 2018

Project Name:
Destination Marketing Reserve Fund – Revised Funding Model

COMMENTS:

There are no financial implications to the City of Winnipeg as the new funding distribution will continue to equal the amount of the annual Accommodation Tax revenue generated.

However, contributions to Economic Development Winnipeg will increase offset by reduced contributions to the Convention Centre - Restricted Capital. In 2018 these amounts are expected to be approximately $250,000 each.

original signed by
Tanis Yanchishyn
Manager of Finance (Campus)
Corporate Finance Department

CONSULTATION

This Report has been prepared in consultation with:

- Economic Development Winnipeg

OURWINNIPEG POLICY ALIGNMENT

01-3 Prosperity

Direction 2: Provide a predictable and cost-effective business environment that promotes investment and growth.

- Re-think regulation and taxation from the viewpoint of fostering economic growth.

Direction 4: Collaborate with all public, private and community economic development agencies to advance economic advantages.

- Foster and promote a positive and welcoming global image of the city and region.

SUBMITTED BY

Department: Assessment and Taxation
Division: Taxation and Finance Services
Prepared by: Tim Austin, Manager of Taxation and Finance Services
Date: August 29, 2018
File No: N/A

Appendix 1

Summary of Distribution of Accommodation Tax Revenue

	2013	2014	2015	2016	2017	2018 Forecast
Accommodation Tax Revenue	$ 7,494,309	$ 7,980,432	$ 8,924,001	$ 9,859,965	$ 10,179,356	$ 10,300,000
Economic Development Winnipeg	2,248,293	2,394,130	2,677,200	2,957,990	3,053,807	3,090,000
Transfer surplus from SEMF	-	-	-	397,990	493,807	509,594
Total Economic Development Winnipeg	2,248,293	2,394,130	2,677,200	3,355,979	3,547,614	3,599,594
Convention Centre - Operating	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Convention Centre - Restricted Capital	2,997,724	3,192,173	3,569,600	3,943,986	4,071,742	4,120,000
Convention Centre - Loan	423,837	376,627	235,190			
City of Winnipeg - Admin Costs	60,000	60,000	60,000	60,000	60,000	80,406
Special Events Marketing Fund	264,456	457,503	882,010	1,397,990	1,493,807	1,509,594
Transfer surplus over $1 million to EDW	-	-	-	(397,990)	(493,807)	(509,594)
Net Special Events Marketing Fund	264,456	457,503	882,010	1,000,000	1,000,000	1,000,000

Appendix 2

Analysis of Percentage Distribution of Accommodation Tax Revenue

	2013	2014	2015	2016	2017	2018 Forecast
Total Economic Development Winnipeg	30%	30%	30%	34%	35%	35%*
Convention Centre - Operating	20%	19%	17%	15%	15%	15%
Convention Centre - Restricted Capital	40%	40%	40%	40%	40%	40%
Convention Centre - Loan	6%	5%	3%	0%	0%	0%
City of Winnipeg - Admin Costs	1%	1%	1%	1%	1%	1%
Net Special Events Marketing Fund	4%	6%	10%	10%	10%	10%

NOTE: The analysis of percentage of accommodation tax revenue above is based on the "Current Funding Allocation", the 35% allocated to Economic Development Winnipeg in the 2018 forecast includes:

- *30% operating grant*
- *plus residual amount remaining after $1.0 million Special Events Marketing Fund cap has been reached which is equal to an estimated 5% in 2018.*

Appendix 3

Comparison of the Funding Allocations

	Current Funding Allocations Matrix		Revised Funding Allocations Matrix		Variance
Accommodation Tax Revenue - 2018 Project Revenue		$ 10,300,000		$ 10,300,000	$ -
Economic Development Winnipeg	35%*	3,599,594	35%	3,605,000	5,406
Convention Centre - Operating	Fixed Amount	1,500,000	Fixed Amount	1,500,000	-
Convention Centre - Restricted Capital	40.00%	4,120,000	37.50%	3,862,500	(257,500)
City of Winnipeg - Admin Costs	Approved Amount	80,406	Approved Amount	80,406	-
Special Events Marketing Fund	Remainder, after above to a maximum of $1 million	1,000,000	Remainder, after above	1,252,094	252,094
Total Payouts		$ 10,300,000		$ 10,300,000	-

NOTE: Under the "Current Funding Allocation" above, the 35% allocated to Economic Development Winnipeg includes:
$10,300,000 x 30% = $3,090,000
Plus residual amount remaining after $1.0 million Special Events Marketing Fund cap has been reached (estimated to be 5% for 2018):
$1,509,594 - $1,000,000 = $509,594

Appendix 4

Illustrative Example based on Revised Funding Allocation

	Funding Allocation	2018 Estimate		Illustrative Estimate*		Variance	
		Dollars	Percentage	Dollars	Percentage	Dollars	Percentage
Accommodation Tax Revenue	5% of acommodations	$ 10,300,000	100%	$ 11,000,000	100%	$ 700,000	
Economic Development Winnipeg	Minimum amount of $2 million or 35%	3,605,000	35.0%	3,850,000	35.0%	245,000	0.00%
Convention Centre - Operating	Fixed Amount of $1.5 million	1,500,000	14.6%	1,500,000	13.6%	-	-0.93%
Convention Centre - Restricted Capital	37.50%	3,862,500	37.5%	4,125,000	37.5%	262,500	0.00%
City of Winnipeg - Admin Costs	Approved Amount	80,406	0.8%	80,406	0.7%	-	-0.05%
Special Events Marketing Fund	Remainder, after above	1,252,094	12.2%	1,444,594	13.1%	192,500	0.98%
Total Payouts		$ 10,300,000	100%	$ 11,000,000	100%	$ 700,000	

* Please note that increase in accommodation tax revenue is for illustrative purposes only.