

**Ministry of Tourism, Culture and the Arts**

**Green Paper  
on**

**B.C.'s Destination Marketing Network: Funding and Structure**

**The Challenge**

In 2009, the provincial government announced that the Hotel Room Tax will be eliminated effective July 1, 2010 with the implementation of a new Harmonized Sales Tax. This will also have implications for the Additional Hotel Room Tax after June 2011<sup>1</sup>. The government also announced the Crown Corporation responsible for tourism marketing, Tourism British Columbia, will be absorbed into the Ministry of Tourism, Culture and the Arts (MTCA) as of April 2010.

These significant changes have created the need to adjust the funding system for the provincial, regional and community destination marketing organizations as well as an opportunity to redefine the structure of the tourism marketing system in the province. While no immediate changes to funding formulas for community tourism marketing organizations were proposed by government, it has been deemed prudent to include them as an integral part of the review of the province-wide network of tourism marketing.

**Current Destination Marketing Organization (DMO<sup>2</sup>) Network**

BC's Destination Marketing network consists of:

- 1) The Provincial Destination Marketing Organization (PDMO): a responsibility and function of the Ministry of Tourism, Culture and the Arts<sup>3</sup>.
- 2) Regional Destination Marketing Organizations (RDMO): The six regional tourism marketing organizations are:
  - Vancouver, Coast and Mountains Tourism Association
  - Vancouver Island Tourism Association
  - Thompson Okanagan Tourism Association

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<sup>1</sup> Government announced that the additional hotel room tax levied under the Hotel Room Tax Act would be extended until June 30, 2011 to allow for consultation on the future of the program

<sup>2</sup> Destination Marketing Organizations (DMOs) may include non-profit societies, local municipal government, regional districts or provincial ministries/agencies that are identified as an eligible entity and are engaged in developing and/or delivering tourism marketing and/or management activities.

<sup>3</sup> Until full integration of Tourism BC into the ministry, MTCA's Deputy Minister is also interim CEO of the Crown corporation PDMO.

## FOR DISCUSSION PURPOSES

- Kootenay Rockies Tourism Association
  - Cariboo Chilcotin Coast Tourism Association
  - Northern British Columbia Tourism Association
- 3) Community Destination Marketing Organizations (CDMO): 37 marketing organizations representing 41 approved AHRT communities in BC.

The PDMO is the provincial government entity that is responsible for tourism development and promotion for the Province of B.C. as a domestic and international tourism destination. Funding is provided through voted appropriation and the PDMO has a fiduciary responsibility (via the *Tourism Act*) for most aspects of tourism throughout the province.

The RDMOs are a network of six regional tourism associations registered under the *Societies Act* and each is managed by a regional Board of Directors. The RDMOs are funded under contract with the PDMO to deliver various tourism programs, to the benefit of tourism stakeholders within their respective regions.

The CDMOs are an extensive network of communities (large and small) located throughout the province that promote tourism at the community level. The community marketing effort is currently funded in part through the Additional Hotel Room Tax (AHRT) at up to 2% of accommodation fees charged by accommodation providers. As the AHRT is a municipal tax option, local governments, in cooperation with local tourism businesses, apply to the provincial government for approval to implement the tax and apply revenues to planned tourism marketing initiatives. The [Hotel Room Act](#) contains provisions for the AHRT.

### **The Consultation Process**

Starting in September 2009, there have been a series of consultative meetings between government ministers and officials from the Ministry of Finance, MTCA and Ministry of Community and Rural Development and various tourism sector associations interested in the structure and funding of tourism marketing in B.C. Position papers were also produced and presented by several groups including the BC Hotel Association (BCHA), the BC Council of Tourism Associations (COTA), the BC DMO Association (BCDMOA), the BC Lodging and Campground Association (BCLCA), the Regional DMOs and the Union of BC Municipalities (UBCM). In addition, government received numerous calls and letters from individual tourism businesses, associations, CDMOs, RDMOs and local government.

Ministers agreed that MTCA would lead extended consultations on Destination Marketing network issues with the tourism industry and communities.

MTCA undertook a joint industry-government DMO Forum in Vancouver on October 28, 2009, which brought together over 40 senior leaders from organizations representative of the segments of B.C.'s tourism industry most engaged with our DMO network. Given the range of varying positions/interests just within the tourism industry itself, it was agreed that this first forum would seek participation from all levels of DMO (PDMO, RDMO and CDMO) from all regions of the province, the accommodation sector (via BCHA and BCLCA) and the broader

## FOR DISCUSSION PURPOSES

tourism business community (via COTA). The Forum succeeded in gaining key collective input from the tourism sectors regarding the funding and structural challenges/opportunities facing B.C.'s Destination Marketing network, building better mutual awareness of issues and timing for government decisions, and testing some preliminary option ideas from MTCA/Tourism BC.

At the conclusion of the October forum, MTCA made a commitment to evolve options and models and seek further stakeholder feedback before finalizing recommendations for ministers. MTCA wants to build on the success of the first Forum and hold a second DMO forum in Richmond on January 6, 2010<sup>4</sup>. This Green Paper is intended to focus joint discussions at the forum to gain feedback on, and gauge support for: MTCA's analysis and preliminary conclusions, including a potential model for DMO network funding and structure.

On December 16, 2009, MTCA officials briefed the Minister's Council on Tourism about the ministry's observations, analysis and draft conclusions to date that were going into the Green Paper. The ministry received very constructive advice and feedback from the council which has helped refine this discussion paper.

MTCA is distributing the Green Paper to all participants of the October DMO Forum (report from the first Forum is available from [john.willow@gov.bc.ca](mailto:john.willow@gov.bc.ca)), the Chairs and CEOs of all RDMOs and CDMOs in BC, the councils/mayors of all 41 approved AHRT communities, the leadership of key associations including COTA, BCHA, BCDMOA, BCLCA, AtBC and the UBCM, and officials in the Ministry of Finance (MFIN) and the Ministry of Community and Rural Development (MCD).

The Minister of Tourism, Culture and the Arts has been asked to present their recommendations on destination marketing network funding and structure to the Minister of Finance by January 15, 2010.

The Minister of Finance is responsible for all decisions related to tax policy and administration.

### **Aim of This Green Paper**

The aim of this discussion paper is to:

- Share MTCA's research, analysis, preliminary conclusions, and potential model for Destination Market network funding and structure
- Provide a focus for joint discussions at the January 6, 2010 consultation Forum
- Seek feedback and gauge support for proposed changes from key stakeholders which will inform MTCA's final recommendations to the Minister of Finance.

Specifically, this paper helps to:

- Summarize key feedback/ideas received on issues and options;
- Identify any additional facts/data that have informed our analysis;
- Set out MTCA's assessment of issues and ideas, their potential implications and our preliminary conclusions;

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<sup>4</sup> MTCA officials will be working with a sector working group to organize the independently facilitated January Forum, develop the agenda and confirm participation levels.

## FOR DISCUSSION PURPOSES

- Set out what MTCA views as practical options and models, given the collective analysis to date, with more mid-level detail; and,
- Identify those components where MTCA is seeking further input on multiple options.

### **Section 1: MTCA Analysis & Preliminary Conclusions**

Based on MTCA's inter-agency and stakeholder consultations to date, the following analysis and preliminary conclusions have been reached.

#### **1.1 Range of Funding Options**

- The funding solution must recognize that B.C.'s destination marketing network is composed of three distinct but linked components:
  - The Ministry of Tourism, Culture and the Arts as the provincial DMO (PDMO);
  - Six not-for-profit regional DMOs (RDMO); and,
  - Thirty-seven not-for-profit community DMOs<sup>5</sup> (CDMO) which function on behalf of the 41 local communities throughout BC that have been approved to collect and utilize the 2% Additional Hotel Room Tax (AHRT) revenues for tourism marketing.
- After considering potential options for DMO funding mechanisms, it has become apparent that no single option is available that will meet the long term funding needs of all three levels of DMO in B.C. (e.g. provincial, regional and city/community). Therefore, a "hybrid" solution is being proposed, which has separate mechanisms for:
  - The PDMO and six RDMOs; and
  - AHRT municipalities and associated community/city DMOs.
- A conceptually attractive option would be to fund the DMO system from a fixed percentage of the new HST revenue stream generated by the tourism sector. However, this option has a very low likelihood of approval (from both federal and provincial governments), and was therefore dropped from consideration.

#### **1.2 Is it a 'Tax' or 'Fee'?**

- Any funding mechanism for CDMOs that is similar to the AHRT is to be considered a "tax" and *not* a fee or levy.
  - The current AHRT is a municipal tax collected by local accommodation providers which remit the tax directly to MFIN which serves as a collection agent for the local government.

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<sup>5</sup> Some CDMOs operate on behalf of more than one approved community (e.g. Oceanside Tourism Association, Tourism Langley, and Vancouver's North Shore Tourism Association).

## FOR DISCUSSION PURPOSES

- Depending on the degree of regulatory changes proposed, it may be possible (and practical) to retain the “AHRT” name for renewed/updated funding program.
- Broad sector support exists to expand the AHRT’s sliding scale from current 1% to 2% tax to a range of 1% to 4%.
- Effective July 1, 2010, the AHRT and any other additional tax on accommodation will be subject to the 12% HST (e.g., room charge of \$150 + 4% AHRT = \$156 + 12% HST = \$174.72 charged to the consumer)
- AHRT funding and other DMO funding derived from government tax revenues is to be used for marketing activities that benefit all tourism sectors/businesses in the DMO’s geographic area.

### 1.3 Who Votes to Implement Incremental Tax

- Opening the AHRT program to other tourism sectors is not practical at this time.
  - It will complicate administration and associated costs of the program.
  - In most communities and for most other tourism sectors, broadening the tax base beyond accommodations would result in only modest gains in revenues.
- Initial application to collect the tax, or as required for any reapplication or renewal, should continue to require majority support (51% of rooms and 51% of establishments) from local fixed roof accommodation providers as currently defined in the AHRT (e.g., designated accommodation providers with four or more rooms).
- Given the added 7% in tax that will be paid on campground stays under the HST, campgrounds should remain outside the AHRT definition of eligible accommodations both for voting and collection of the incremental tax.

### 1.4 Tax Range and Scope

- The fixed roof accommodation sector collects the AHRT on behalf of municipal government and all local tourism businesses.
- New HST will utilize GST rules; therefore, all businesses generating \$30,000 or more in gross revenues will have to collect and remit HST.
- Ministry of Finance currently retains a small fee for collecting and remitting the tax revenues on behalf of local governments, as per legislation.
- Consideration should be given to applying the HST threshold (\$30,000 annual gross revenues) to the AHRT for purposes of identifying which fixed room accommodation businesses must collect the AHRT once the tax is approved for that municipality. This would:
  - Provide a level playing field for accommodation providers
  - Lead to reduced red tape, and

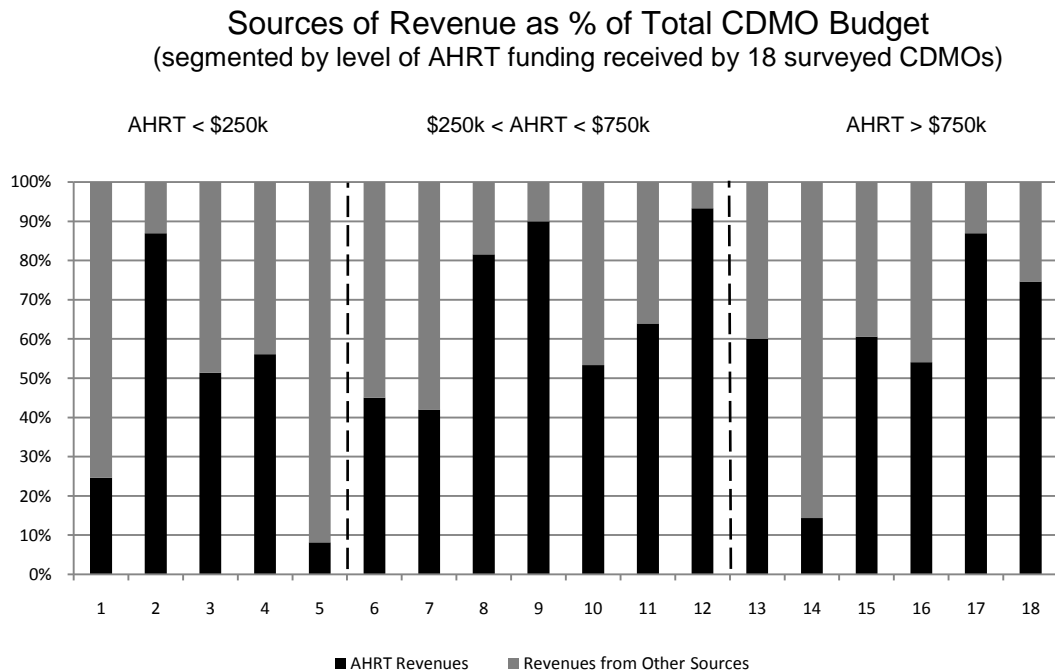
## FOR DISCUSSION PURPOSES

- Achieve a higher consistency in the application of taxation policy.
- Should maintain the current AHRT exemption for room stays of 30 days or longer; the same exemption will apply to the new HST.

### 1.5 Leveraging the Tax Funding

- Most CDMOs are successfully leveraging their AHRT dollars and expanding the financial resources available to them within their annual budgets.
- The leverage ratios for all 18 CDMOs surveyed (representing 22 AHRT communities) ranged from virtually no leveraging of AHRT dollars (0.1 to 1) to a high of 11.3 to 1 (e.g., the CDMO secured \$11.30 in additional revenues for every \$1.00 of AHRT funding).
- Even with a strong trend among CDMOs to secure additional revenues, MTCA's recent CDMO survey showed that AHRT revenues are extremely important so all sizes of CDMOs based on amount of AHRT funding received (see figure 1). Findings show:
  - Over 70% of CDMOs (13 of 18) had total budgets where AHRT revenues accounted for more than 50% of their total revenues.

Figure 1



### 1.6 Practical Threshold for Small DMOs

- An issue raised by several stakeholders, including government, was that in some cases smaller CDMOs may be spending a disproportionate amount of AHRT funds on

**FOR DISCUSSION PURPOSES**

overhead, salaries and general administration (O&A) which significantly diminishes the amount of funding available to actually do marketing.

- There appears to be mixed support for the idea of setting a minimum threshold size of CDMO depending on what the metric might be (e.g. level of AHRT funding, level of CDMO’s total revenues, or what percentage of revenues are dedicated to O&A).
- Figure 2 shows us that 45% (8) of the 18 CDMOs surveyed by MTCA received more than \$500,000 in AHRT funding in 2008. However, when all sources of reported revenues are taken into consideration (e.g., total budgets), 67% or 12 of those same 18 CDMOs now had available total revenues in excess of \$500,000.

Figure 2

<b>2008 Revenue Comparison For Surveyed CDMOs</b> (n = 18 CDMOs representing 22 AHRT communities)		
<b>Revenue Range</b>	<b># of CDMOs in Range AHRT Revenues Only</b>	<b># of CDMOs in Range Total Reported Revenues</b>
< \$100 K	1	0
\$100 K to < \$250 K	4	3
\$250 K to < \$500 K	5	3
\$500 K to < \$750 K	2	4
\$750 K to < \$1 M	1	1
> \$1 Million	5	7

- The option of setting a threshold based only on the level of ARHT revenues a municipality/CDMO receives appears arbitrary and impractical. If the intent is to enable and encourage all DMOs to seek partnership funding to augment tax funding, any threshold for efficient operation and maximizing marketing spend should be focused on the total revenues available to the DMO and not just the tax-based revenue.
- It has been suggested that a potential threshold for O&A expenditures as a function of a CDMO’s total revenues/budget should be in the order of 25%.
  - However, practical consideration must be given to the stage at which a DMO is at in its operating life; typically start-up and expansion phases require higher investments in O&A than if the organization is in a mature and steady operations mode.
  - Is 25% a realistic threshold? Reviewing a sample of budget reports from seven CDMOs<sup>6</sup> indicates that O&A expenses<sup>7</sup> ranged from 21% and 25% (for a small and a medium sized CDMO respectively) to highs of 42%, 43% and 50% (for a medium, a large and a small sized CDMO respectively).

<sup>6</sup> CDMO sample included: 2 small (total revenues <\$300k), 3 medium (\$300k to \$1 million) and 2 large (>\$1 million) organizations.

<sup>7</sup> Included wages and benefits, admin, office costs, rent, board support, start-up, visitor and member services.

## FOR DISCUSSION PURPOSES

- Another potential mechanism to encourage smaller CDMOs, or CDMOs that are in close geographic proximity, to opt for integrating their operations with another CDMO or their RDMO would be to offer some form of financial incentive. For example, MTCA/PDMO could provide a standing offer of additional financial contribution (such as a set percentage of annual AHRT revenues) to CDMOs who opt to fully integrate their operations with another DMO.

### 1.7 **Flow of AHRT Funding**

- The BCHA, BCDMOA and COTA all supported the concept that future AHRT funding should flow directly from the provincial revenue agency to the DMOs, and local governments would no longer need to be responsible for the functions of financial administration, DMO business plan approval and annual reporting to the Province.
- Of 26 local governments (with AHRT) surveyed by MFIN this fall, 25 said they would want to continue to receive AHRT funds directly from the MFIN.
- MFIN and MTCA also received several letters from mayors/councils of AHRT communities stating they would be supportive of AHRT funding flowing directly to the CDMO.
- Currently the AHRT legislation empowers the applying/approved local government to have the option to designate an “eligible entity” to directly receive AHRT funds from MFIN and be accountable for the use of those funds as approved by the Province. Each specific entity is defined separately within regulation, and the below text is typical of the definition parameters generally used:

**Qualification of Eligible Entities** *(to be specified for each municipal area)*

An entity is qualified to be eligible to request that a regulation be made under section XXX of the *Additional Hotel Room Tax Act* if the entity

- a) is a not-for-profit business association,
- b) has a place of business in the (City or Municipality or Resort Area or Regional District) of \_\_\_\_\_, and
- c) engages in tourism marketing on behalf of the (City or Municipality or Resort Area or Regional District) of \_\_\_\_\_ as well as tourism programs and projects in the (City or Municipality or Resort Area or Regional District) of \_\_\_\_\_.

- Several local governments have opted to designate their CDMO as an eligible entity, and there are at least three cases where a CDMO is receiving AHRT funds from, and working on behalf of more than one approved municipality.
- At the October DMO Forum, some concern was expressed regarding the potential option of incremental tax funding for CDMOs flow through MTCA. There was a perception that as the ministry’s priorities change, funding may potentially be diverted away from approved AHRT communities and/or CDMOs for other purposes.

## FOR DISCUSSION PURPOSES

- Therefore, with respect to the flow of dollars from any enhanced AHRT mechanism:
  - MFIN should continue to serve as agents for municipal governments and collect and remit AHRT revenues directly to the local government or the designated eligible marketing entity as set out in regulation, and
  - Local governments should be encouraged to designate an eligible entity (CDMO) to receive directly from MFIN any AHRT funding generated in the area, and
  - Approved CDMO eligible entities, on behalf of the municipality and all tourism businesses in the area, would then be accountable to the province, the local government and local tourism businesses for the use of AHRT funds.

### 1.8 **Ensuring AHRT Dollars are used for Tourism Marketing**

- Numerous stakeholder identified that the following linked issues within the current AHRT system need to be addressed going forward:
  - Probability that not all of the AHRT dollars are being used for intended purpose of tourism marketing (e.g. not all AHRT funds are flowing through to the designated CDMO in all cases).
  - CDMO reporting requirements are not being consistently met/enforced, and there is only limited monitoring and/or assessment of whether the AHRT community and its CDMO are actually doing what they committed to do when plan was approved by the provincial government.
- Given the broad and complex mandate of MFIN, that agency may continue to have challenges in effectively fulfilling government's obligations for timely and transparent AHRT approvals, monitoring, assessment and renewals.
- MTCA, as lead tourism agency and PDMO, is a logical choice to be responsible and ensure accountability for effective and efficient use of taxpayer dollars provided to approved municipalities and CDMOs via any form of AHRT legislation.
  - MFIN is supportive in principle of this change, provided it remains clear that the Minister of Finance is responsible for tax policy decisions and administration.
  - Assuming this responsibility will be an added operational cost for MTCA, one that should not be cost-recovered from AHRT funds.
  - MTCA is willing to assume role of agency responsible to Treasury Board for AHRT approvals, policy, monitoring/reporting, renewals, etc.

### 1.9 **DMO Governance**

- All CDMOs and RDMOs currently in operation are incorporated as not-for-profit legal entities under the *BC Societies Act* and as such are governed by Boards of Directors, have formal charters and bylaws, must meet legal and financial reporting requirements, and have developed supporting policies and practices.

## FOR DISCUSSION PURPOSES

- All DMOs are influenced by the business and market dynamics in their own regions, must deal with different product mixes and local sector make-up and have varied partnership arrangements. Therefore, a cookie cutter approach to DMO governance is not practical.
- It is also apparent that not all DMOs are functioning as smoothly or effectively as others. Some of this has to do with what stage of development the DMO is in, other times local differences of opinion between member sectors complicate the situation. However, it is clear that some DMO Boards are functioning very effectively and have the full support of their members.
  - Every effort should be made to identify those governance “best practices” and share them with all DMOs
  - There may be some governance practices/protocols that are universal or deemed essential that could be set out in regulation or policy
- Most effective DMO Boards strive for a balance between:
  - Membership based on representation (of local tourism stakeholders) and membership based on governance competencies and experience, and;
  - As DMOs are working on behalf of all tourism businesses within their area or region, no one sector should dominate the make-up of a Board of Directors
  - Being a governance/policy Board providing strategic direction and oversight, and being an operational Board ensuring the DMO’s plans and actions are effective and supported by the members.
- Key stakeholders that have a significant vested interest and should be assured representation on DMO Boards include:
  - Local governments which are a key program partner beyond the fact the AHRT funding is a municipal tax. Over 80% of the 18 CDMOs surveyed had at least one board seat for local government.
  - Local hoteliers which are usually the largest single tourism business sector in the area, and being the collectors of the tax on behalf of municipalities and other businesses has an impact on their price point with consumers.

### **1.10 Term of AHRT Approval and Process for Renewal**

- The current AHRT requires all post 1997<sup>8</sup> approved municipalities to apply for a renewal of term every five years, which includes the requirement to undertake a new vote among accommodation properties so as to confirm support (51% of rooms and 51% of establishments with 4 or more rooms).
- Six municipalities and one CDMO have been exempt the requirement to renew 2% AHRT approvals every five years. The ‘grandfathered’ entities: Tourism Vancouver and the municipalities of Oak Bay, Prince Rupert, Saanich, Smithers, Victoria and Whistler.

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<sup>8</sup> AHRT provision establishment within HRT legislation in 1997

## FOR DISCUSSION PURPOSES

- Widespread (but not universal) support for the continuation of a set term for review and renewal for *all* CDMOs, but need to build in more flexibility to enable organizations to enter into longer term contractual commitments and/or adapt as required to accommodate special circumstances.
- Although a fixed term (likely 5 year) will likely be retained, the legislation and/or regulation should consider some form of “auto-renewal” or “rolling approval” provision that would facilitate automatic renewal for a continued term.
  - MTCA would engage directly with the AHRT municipality (or its eligible entity) regarding renewal process and information requirements.
  - Would require a clear set of pre-conditions, such as:
    - annual reports submitted on time and are complete (standard minimum requirements will be established)
    - business plan implemented as approved
    - degree of integration with RDMO and/or PDMO plans/ops
    - degree of satisfaction among local tourism businesses (i.e., may need sufficient support from accommodation and other tourism businesses to continue).
    - local hotel occupancy staying above a certain minimal threshold
    - possible other performance measures
  - Prior to making its decision on renewal, MTCA should:
    - Consult with key stakeholders (RDMO, local industry associations, etc.)
    - Refer applications for renewal to key ministries as appropriate (e.g., MFIN and MCD) as well as the local municipality (where the application for renewal is being made directly to MTCA by a designated eligible entity). Input from these referrals would be used to inform MTCA renewal decision.
- Such a renewal provision is more business friendly and may serve as an incentive for diligence in reporting, evolution of marketing plans, leveraging of tax funds, alignment of marketing efforts with other levels of DMOs, etc.
- In order to create a level playing field, term renewal provision should apply to all CDMOs, and therefore will need to consider removing the exemption status of the seven grandfathered entities.
- Performance metrics should also be considered in relation to the DMO’s total revenue picture, not just the amount of AHRT revenues received.
- Failure to attain approval of auto-renewal from ministry would trigger requirement for municipality or eligible entity to undertake a vote among accommodation sector.

## FOR DISCUSSION PURPOSES

### 1.11 Special Case Considerations

Tourism Vancouver:

- Tourism Vancouver is a unique situation that will merit some special consideration due to the following realities:
  - It is the largest CDMO by far, accounting for approximately 35% of total AHRT revenues generated in the province and total operating budget of over \$11 Million.
  - B.C.'s primary international gateway and largest icon city destination.
  - Unique role with respect to securing convention business (in concert with PAVCO) for the expanded Vancouver Convention Centre.
  - Obligation to repay \$90M over time to the province, contingent on there being an additional hotel room tax revenue stream.
  - It is the only 'grandfathered' entity that is not a municipal government
  - Vancouver will be key to the level of success B.C. realizes in efforts to fully capitalize on the opportunity presented by hosting the 2010 Winter Olympic Games
- MTCA is strongly encouraging the Boards of Tourism Vancouver and the Hotel Association of Vancouver to jointly develop for provincial government's consideration a mutually agreeable proposal for CDMO funding and governance.

Resort Municipality of Whistler

- The history of tourism development and investment in the Resort Municipality of Whistler over the last few decades has resulted in Whistler-Blackcombe be rated as the premier ski and mountain resort in Canada, and one of the best in the world.
- Whistler resort community development and tourism marketing efforts are highly linked and interdependent, and it is vitally important that this continues in some form so as to ensure capitalization on recent Olympic driven investments.
- Currently, approximately 40% of the \$3.7 million in AHRT funding generated in the municipality is provided to Tourism Whistler for destination marketing.
- To be consistent, several interest groups would like to see more/all AHRT funding go to Tourism Whistler to support marketing efforts. MTCA recognizes that certain tourism programs in the Whistler area should continue and the ministry encourages the Resort Municipality of Whistler, Tourism Whistler and the accommodation sector in Whistler to jointly develop for provincial government's consideration a mutually agreeable proposal for how to most effectively use AHRT funding.

## FOR DISCUSSION PURPOSES

### Section 2: Proposed Guiding Principles

Guiding principles or characteristics for B.C.'s DMO network should be consistent (if not the same) at every level – PDMO, RDMO and CDMO.

Based on the constructive input and consultations to date, MTCA proposes that a linked set of core or key principles for DMOs include, but not necessarily be limited to, the following:

#### **Funding Principles**

- **Formula driven:** Clear funding formula using credible data and defensible assumptions.
- **Performance based:** Funding should be based on measurable industry performance (e.g., room revenues, gross domestic product, HST data, etc.).
- **Predictable:** Enables multi-year partnerships and agreements for marketing planning & operations.
- **Transparent:** Information about budgets and operations is clear to government and stakeholders.
- **Efficient Administration:** Is straight-forward and low cost for government and businesses to administer.
- **Accountable:** Ensures accountability for appropriate and responsible use of provincial and municipal tax dollars for tourism marketing.

#### **Operating Principles**

- **Customer driven:** Each level of DMO must be delivering the right message to the right traveller/tourist.
- **Member focused:** Tourism businesses within the DMO area will have the opportunity to provide input on marketing programs.
- **Informed Decisions:** Baseline data and analysis from research and market intelligence will continue to be collected by the PDMO to inform program decisions, investments and demonstrate success.
- **Broad Benefits:** Funding used to increase area visitation and/or spend to the benefit of all local tourism businesses, thus generating local jobs and a boost to area economies.
- **Integration:** Work to ensure all three levels of DMOs more fully integrate their marketing plans.
- **Collaborative:** More partnerships within and between community, regional and provincial levels are needed to enhance marketing alignment and integration.
- **Flexibility:** DMOs need to have the ability to change expenditure priorities, should market conditions change.

## FOR DISCUSSION PURPOSES

### Section 3: Probable Funding Model

Based on the above analysis, preliminary conclusions and suggested guiding principles, a practical funding option for our Destination Marketing network would be a hybrid model as proposed below:

#### Proposed Hybrid Funding Model for BC's Destination Marketing Network

Formula Funding for Provincial DMO & Regional DMOs <i>(ALL NEW)</i>	Formula Funding for Local Municipalities and Community DMOs
<p>Performance-based formula for MTCA funding allocation for PDMO and RDMO operations/planning established via:</p> <ul style="list-style-type: none"> <li>○ Annual budget appropriation process where MTCA's annual budget request to Treasury Board is developed using a performance based formula; or</li> <li>○ The same performance based formula is established in a new regulation attached to new or existing tourism legislation.</li> </ul> <p>MTCA responsible government agency for legislation, regulation and policy that sets out:</p> <ul style="list-style-type: none"> <li>○ Guiding principles for DMOs</li> <li>○ Performance-based formula for annual funding allocation to each RDMO</li> <li>○ Protocols and terms for multi-year partnership agreements</li> <li>○ Cooperative planning and operations</li> <li>○ DMO performance metrics</li> <li>○ Best practices</li> <li>○ RDMO reporting requirements</li> <li>○ PDMO reporting requirements</li> </ul>	<p><b>Enhanced AHRT Program:</b></p> <ul style="list-style-type: none"> <li>▪ Incremental municipal tax on fixed roof accommodations only (e.g. no other sectors).</li> <li>▪ Initial application to collect the tax, or as required for reapplication/renewal, will require majority support (51% of rooms and 51% of establishments) of the local fixed roof accommodation providers with 4 or more rooms and as currently defined.</li> <li>▪ Tax range 1% to 4% as determined by applicant jurisdiction/entity <i>(NEW)</i></li> <li>▪ Standard term of 5 years for approval to collect the tax for all CDMOs, with no exceptions <i>(NEW)</i></li> <li>▪ All fixed-roof accommodations in approved AHRT community areas that reported annual gross revenues exceeding \$30,000 will collect and remit the additional room tax on behalf of the municipality and local tourism businesses. <i>(NEW)</i></li> <li>▪ MFIN responsible for tax policy and administration.</li> <li>▪ MFIN/Revenue Agency serves as agent for local government for revenue collection and return of tax revenue (net all commissions) to approved local government or designated eligible entity.</li> <li>▪ Clearer language to the effect that applicant or approved jurisdiction may designate another eligible entity other than the local government to directly receive AHRT funds from MFIN. <i>(ADDED CLARITY)</i></li> <li>▪ Authority/responsibility/accountability for AHRT approvals, expenditure policies, reporting, monitoring and renewals to be the responsibility of the Minister of Tourism. <i>(NEW)</i></li> <li>▪ Penalties for non compliance to be set out in legislation or regulation. <i>(NEW)</i></li> </ul>

**FOR DISCUSSION PURPOSES**

<p align="center"><b>Formula Funding for Provincial DMO &amp; Regional DMOs (ALL NEW)</b></p>	<p align="center"><b>Formula Funding for Local Municipalities and Community DMOs</b></p>
<p>MTCA responsible for any authorities delegated to it under new enhanced AHRT legislation and supporting regulation.</p>	<ul style="list-style-type: none"> <li>▪ Also to be set out in AHRT program:               <ul style="list-style-type: none"> <li>○ Guiding principles (NEW)</li> <li>○ Application mechanism (ADDED CLARITY)</li> <li>○ Process to confirm tax percentage and vote mechanism among accommodation sector (ADDED CLARITY)</li> <li>○ High level governance considerations (e.g., “Boards of DMOs will have a minimum seat requirements for local government, hoteliers, area RDMO...”) (NEW)</li> <li>○ Threshold range for maximum percentage of CDMO’s total revenue expended on overhead and administration (NEW)</li> <li>○ Progressive renewal process with provision for “auto-renewal” (NEW)</li> </ul> </li> <li>▪ Supporting AHRT policies and best practices the delegated responsibility of MTCA in consultation with MFIN, MCD and industry. (NEW)</li> </ul>

## FOR DISCUSSION PURPOSES

### **Section 4: Probable Destination Marketing Network Structural Model**

Based on the overall analysis set out above and the proposed hybrid funding mechanism, MTCA proposes that a practical and progressive structural model for the Destination Marketing network would be as follows:

#### **Ministry of Finance**

- Ministry responsible for overall government budget process
- Ministry responsible for tax policy and administration
- Undertake AHRT revenue collection on behalf of local government and remission of locally collected revenues
- Disbursement of AHRT revenues generated in approved municipal area back to the local government or the formally identified legal entity
- Provide approved funding to MTCA for PDMO and RDMO planning and operations

#### **Provincial DMO Level (Ministry of Tourism, Culture and the Arts)**

- Ministry responsible for *Tourism Act* and supporting regulation(s)
- Ministry responsible for Provincial DMO planning and operations (to be defined)
- Establish and maintain multi-year contractual agreements with all RDMOs and the transfer annually of funds to RDMOs as per performance based formula and supporting policies
- Partnership destination marketing and management activities with RDMOs
- As per enhanced *AHRT* program and updated *Tourism Act*, Ministry responsible and accountable for:
  - a) AHRT approvals and renewal decisions (referrals to MCD and other key agencies for input prior to minister's decision)
  - b) Receipt and assessment of annual DMO reports
  - c) Monitoring RDMO and CDMO performance
  - d) Overall DMO policies and protocols
  - e) Establish DMO performance measures/metrics
  - f) Identify and encourage adoption of DMO best practices
  - g) Reporting to Treasury Board on effective use of taxpayer dollars designated for tourism destination marketing and management

## FOR DISCUSSION PURPOSES

- Facilitate and enable better integration and alignment of tourism marketing planning and operations within and between all DMO levels – PDMO, RDMO, Large City DMOs, Community DMOs and Resort Municipality DMOs.

### **Regional DMO Level**

- RDMO Board of Directors
  - a) RDMO governance and policies
  - b) Securing and renewing contract agreement(s) with MTCA/PDMO
  - c) Setting strategic direction for RDMO in relation to PDMO marketing plans and operations
  - d) Facilitate and encourage joint planning and operational partnerships with CDMOs within the region
  - e) Establishment of committees as required
  - f) Hiring of senior management staff
  - g) Development and approval of annual operating budget
    - Monitor level of overall funding dedicated to overhead and admin
    - Seek to lever provincial funding to maximize effectiveness of destination marketing and/or management activities
  - h) Approval of RDMO annual reports (for member stakeholders and public record)
  - i) Submit annual reports as per MTCA requirements to the Ministry; and
  - j) Any other responsibilities as set out in approved business plan

### **Community Level (Local Tourism Industry, CDMO and Local Government)**

#### **a) Pre-approval Stage**

- Co-develop application for 1% - 4% AHRT in defined geographic region as per enhanced *AHRT Act*, regulation and supporting guidelines provided by MTCA.
- Undertake vote among fixed -roof accommodation businesses with 4 or more rooms and seek majority approval (e.g. 51% of room total capacity, and 51% of establishments).
- Identify the legal entity that will be responsible/accountable for:
  - a) receipt of net tax funds from MFIN
  - b) Annual reporting to MTCA, CDMO members and stakeholders
  - c) Implementation of destination marketing/management plan

## FOR DISCUSSION PURPOSES

d) Meeting term renewal conditions

### **b) Post Approval**

- Local government
  - a) Transmit 100% of AHRT funding received annually from MFIN to the DMO entity identified (unless CDMO is identified and approved as eligible entity)
  - b) Active participation on CDMO Board
  - c) Ensure linkage/integration with other local economic development planning and implementation initiatives
  - d) Review and submit annual CDMO reports to MTCA, unless CDMO has been empowered to deal directly with MTCA
  - e) Encourage coordinated and collaborative marketing efforts between communities and with applicable RDMO and PDMO
  
- CDMO Board of Directors
  - a) DMO governance and policy
  - b) Hiring of senior management staff
  - c) Establishment of committees as required
  - d) Setting strategic direction for DMO in relation to regional and provincial marketing plans and operations
  - e) Approval of annual budget
    - Monitor level of overall funding dedicated to overhead and administration
    - Seek to lever AHRT funding to maximize effectiveness of destination marketing and/or management activities
  - f) Approval of annual reports (for member stakeholders and public record)
  - g) Submit annual reports as per AHRT requirements to local govt or directly to MTCA if so delegated
  - h) Any other responsibilities as set out in approved AHRT application and current approved business plan

## FOR DISCUSSION PURPOSES

### **Transition to Any New System**

With the pending implementation of the HST in July 2010 and the desire to establish a destination marketing network that builds on current strengths and the lessons learned over the last 20 plus years, government will need to establish transition rules from the old system to the new one.

To be effective and ensure minimal disruption of DMO operations, there are a number of considerations that must be assessed and worked out including, but not limited to:

- Time it will take for government to establish supporting DMO policies and protocols
- How to maintain a staggering of AHRT terms for approved communities
- Possibility of no renewal vote required if currently approved municipality/CDMO decides the AHRT tax rate will remain the same as in 2009 (e.g. 2%).
- Collaborative mechanism to identify and share best practices

### **Section 5: Consultation Process for Feedback on Green Paper**

MTCA has formed a Forum planning group to assist with the planning of the January 6<sup>th</sup> DMO Forum in Richmond, including development of the agenda for the day, the mix and balance of stakeholder representation, and reviewing any summary notes or report from the event prior to finalization. Senior representatives from the following groups/associations have agreed to be part of this working group: RDMOs, Large City DMOs, BCDMOA/CDMOs, Resort DMOs, BCHA, COTA and UBCM. In order to make the forum as productive as possible, total number of participants from industry, local government and provincial ministries will be limited to 55.

### **Elements Requiring Consideration and Discussion at the Forum**

At the forum, MTCA will set the stage with an overview of the rationale behind the ministry's green paper and its key points. An independent facilitator will then provide participants an opportunity for interest-based discussion aimed at:

- 1) Gaining feedback and advice on MTCA's preliminary conclusions and proposed models
- 2) Within the proposed model, there are some options for specific mid-level elements that require further consideration and discussion. MTCA will be seeking feedback on options for the below elements:
  - a) Standard AHRT term length and renewal provision options:
    - i) Auto-renewal: MTCA assesses renewal of 5 year term in year 4 as per parameters outlines sub-section 1.10 (e.g., for original approval granted in 2010 for 5 year term until 2015, renewal process undertaken in 2014 and if

## FOR DISCUSSION PURPOSES

successful, AHRT term extended to 2020 without need for accommodation sector vote.)

- ii) Rolling Renewal: every year, MTCA to assess performance of CDMO as per some or all of the parameters set out in sub-section 1.10 and if those parameters are satisfied, MTCA would renew AHRT approval for next 5 years (e.g., for original approval granted in 2010 for 5 year term until 2015, successful review in 2011 would extend approval to 2016 without need for accommodation sector vote.)
- b) Degree to which governance of AHRT funding decisions and allocations at local level is set out in province-wide regulation/policy.
- i) Mechanism to encourage/ensure efficient use of tourism marketing funds for marketing (sub-section 1.6):
  - ii) Threshold level based on AHRT revenue returned to municipality or eligible entity
  - iii) Threshold level based on total revenues available to municipality or eligible entity
  - iv) Threshold based on percentage of revenues (either AHRT or total revenues) devoted to overhead and administration
  - v) Utilize an incentive based approach (e.g., financial incentive to CDMOs who opt to fully integrate their operations with another CDMO or RDMO).
- 3) Transition process considerations that need to be factored into any plans going forward.