Destination Marketing Association of Canada

Visitor Based Assessment Study

February 2020

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INTRODUCTION

Representing a majority of destination marketing organizations across Canada, the Destination Marketing Association of Canada (DMAC) has undertaken to build upon its 2018 white paper on the risk analysis of visitor-based tourism assessments (VBA's). From that report the following guiding principals had been adopted by the DMAC membership;

1. ***Uses:*** *Funds collected will be used exclusively on activities and programs that* ***directly support*** *the development of the tourism industry and the marketing of destinations from which they were generated. Furthermore, for additional clarity any assessment collected should never be issued to shareholders in the form of dividends or accumulated retained earnings in a "for profit" company.*
2. ***Industry Wide:*** *Uses of funds should be for the broad benefit of the tourism industry. Notwithstanding certain strategies and programs may focus on certain industry segment(s). Destinations should seek governance checks and balances that represent the broader industry.*
3. ***Transparency for the Consumer:*** *Consumers are entitled to full and accurate information regarding all assessments. Disclosure of visitor assessments should be made available at all points where prices are quoted including on-line sales tools, and at the point of purchase. Information should include reference to enabling legislation and/or the enabling collection agreement, as well as the types of uses and/or benefits available to the consumer.*
4. ***Transparency for the Industry****: The tourism industry will determine the most effective use of funds and be prepared to communicate these to interested parties. Best practices in governance should be adopted.*
5. ***Accountability:*** *Funding collected should be accounted for independently and/or by dedicated accounts, cost centers, or business units. Annual reporting of the collection and spending should be undertaken.*

Sources: TIAC & USTA 2018 reports

INTRODUCTION (cont'd)

As the tourism landscape continues to grow increasingly competitive and travellers look for new experiences, a majority of cities, towns and regions have recognized the positive economic impact opportunity of investing in tourism. Destinations across North America have, or are in the process of adopting, a VBA model to substantially increase marketing funds aimed at promoting their destinations to targeted markets. Whether through a self-directed process or a legislated model, VBA's have contributed to the growth of the tourism industry which generated 2% of Canada's GDP and 2.9% of GDP in the US in 2018.

As the popularity of VBA's continues to grow and hundreds of millions of dollar flow into tourism marketing, some governments are utilizing VBA funds to address issues which are not always directly related to promoting tourism, such as infrastructure and operating deficits. As tourism is interdependent with so many other sectors (transportation, roads, urban development, quality of destination) in order to grow and be successful, there exists a risk that a broader definition of tourism may be introduced by governments in order to justify a wide-ranging use of VBA funds. Issues related to improper governance and unethical use of VBA funds have also become evident in a small minority of destinations, leading to questions surrounding the proper management of what amounts to be public funds, in many cases raised through a municipal tax. Alarmingly, in the United States almost 80% of all VBA's are siphoned off by local and state governments to use for non-touristic purposes or to fund major capital projects, leaving an impoverished financial stream for destination marketing and development. We need to avoid this situation becoming a reality in Canada – as the ominous signs are already present.

This report will build on the 2018 white paper findings as well as explore and analyze further VBA structures across North America, including the merits and risks associated with the programs.

Sources: TIAC & USTA 2018 reports

INTRODUCTION (cont'd)

As a result of this study, five major recommendations have been put forward which DMAC intends to incorporate as part of its overall objectives;

1. *Government communications strategy initiative*
2. *A best practices and guiding principals document*
3. *Conference Board of Canada report integration*
4. *Hotels Association of Canada communications piece for hoteliers*
5. *Industry standardized KPI's*

Further description of each of these recommendations can be found on page 32 of this report.

INDUSTRY ENDORSEMENTS

The following industry stakeholders endorse this report and its findings;

VBA DEFINITIONS

Tourism is one of Canada's top economic drivers, benefiting all areas of the country. Many destinations across Canada have adopted this sector as a priority within their overall economic development objectives and continue to see this sector grow year over year. In order to finance the sustainable promotion and growth of tourism in a given region and to compete in an ever expanding tourism landscape, destinations have introduced visitor levies, commonly known as a *'Destination Marketing Funds', 'Destination Marketing Programs' or 'Visitor Based Assessments'.* These levies, for the most part, consist of an additional visitor cost charged against the hotel room rate. The levy is based on a percentage or set dollar amount of the nightly room rate charged to the client, normally for all stays of less then 30 days. Presently in Canada and the US three types of levies are commonly found:

1- **Self directed** DMF. Generally agreed upon by the local destination's hotel association and either managed by the association or transferred to the Destination Marketing Organization (DMO),

2- **Municipally legislated** hotel levy. Generally collected by the municipality as a commercial tax, and then transferred in part or whole to the DMO,

3- **Provincial/state legislated** hotel levy. Collected by the province/state/county, in part to finance Provincial Marketing Organizations (PMO) or state marketing organizations; or in part or wholly to finance Regional Tourism Organizations (RTO).

In some jurisdictions a combination of the above options are in place, where the province/state/county has a legislated levy in place in addition to local municipality and/or hotel association DMF's, either self-directed or legislated. Based on the sample peer group outlined in this report, approximately $340 million is spent on destination sales and marketing in Canada and $393 million the US, via VBA's.

SITUATIONAL ANALYSIS AND VBA DESTINATION RESEARCH

Most major destinations in Canada and the United States have well established VBA's generating millions of dollars and bolstering tourism in their regions. Given the successful track record of many of these destinations, smaller municipalities across North America have now adopted the same strategy making VBA's more numerous. This has led to a variety of VBA distribution models, where municipalities have used a broader definition of tourism to help finance other projects.

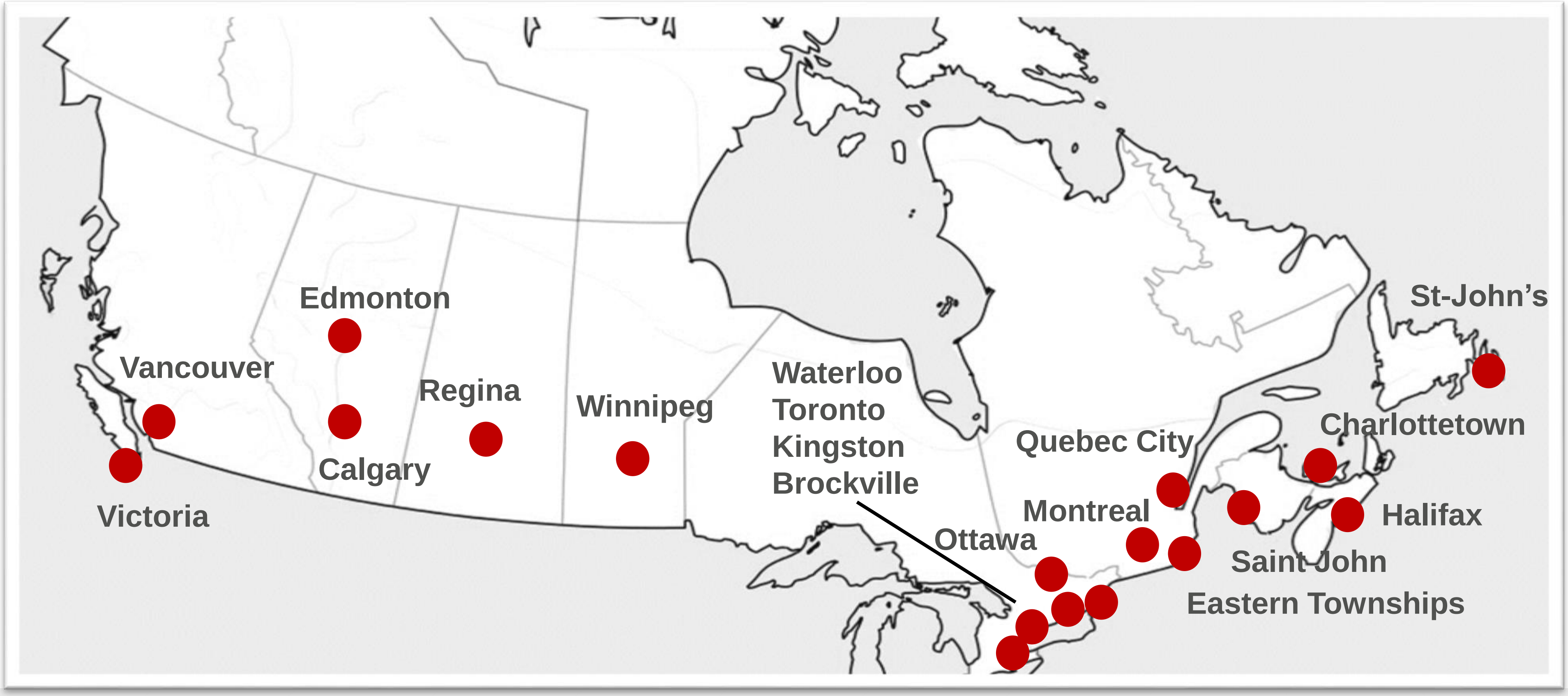
The following charts outline the current assessment rates in selected cities in Canada and the US, as well as rules and regulations particular to each city, province and state. The revenues indicated are based on estimated amounts and are subject to change with occupancy levels. Nevertheless, they do provide a reliable impression of the level of VBA funding for destinations.

US visitor assessments for the most part tend to be included within the overall sales tax structure, although some cities and states do refer specifically to these taxes as hotel or lodging taxes. Regardless, in the majority of cases only 10 - 20% of the collected funds make their way to DMO's for marketing purposes. (this may vary from year to year based on municipal or state budgeting processes). This can be somewhat misleading for the consumer as only a partial amount of collected funds are used for direct tourism promotion. The funds collected under a lodging tax often finance new sports stadiums, convention centres and arts and cultural facilities, and in some cases as in Miami, they provide funding for homeless reduction measures.

With this in mind the US assessment charts will reflect the overall tax percentages and revenues collected as well as estimated revenues going to the DMO.

CANADIAN CITY SAMPLE GROUP

The following cities in Canada have been selected as a sample VBA group. Provincial VBA's have also been identified where applicable in the following analysis. Estimated revenues are in Canadian dollars.



WESTERN CANADA

	British Columbia			Alberta		
Destination	British Columbia	Vancouver	Victoria	Alberta	Calgary	Edmonton
Self-directed		X	X		X	X
Legislated	Provincial	Regional	Regional	Provincial		
% of room rate	8%	3% + 1.3%	3% & 1%	4%	3%	3%
Estimated Rev	$100M	$20M	$7.5M	$90M	$9.5M	$10M
Estimated DMO $	$58M	$20M	$7.5M	$40M	$5M	$6.5M
Eligibility	All lodging establishments are included in provincial tax including AirBNB	MRDT all lodging & AirBNB. Self-directed DMF. 35 of 70 Vancouver hotels participate	Hotels only for VHDMA. All including BnB's and Airbnb for MRDT	All lodging establishments are included in DMF	All lodging	50 hotels = 75% of hotels collect through EDMH
Comments	This levy is over and above local MRDT's and DMF's in place. The revenues go into general provincial revenues; a portion is dedicated to tourism marketing through Destination BC and the remainder goes to infrastructure projects and affordable housing.	The DMF of 1.3% is taxed so is posted as 1.5%. It is NOT collected by AirBNB. It is not fully redistributed to TVan. The 1.5% is over and above the 3% MRDT. Estimated DMF revenue is $8M.	The province and regional district has a 3% legislated hotel tax (MRDT) which is used for affordable housing rather than promotion. The hotel association collects a self-directed 1% DMF (VHDMA) which goes directly to marketing campaigns. BNB's and Airbnb only pay the MRDT.	This levy is over and above local and municipal DMF's in place. The revenues are dedicated to tourism marketing through Travel Alberta.	Alberta Hotel Assoc acts as trustee to manage fund. The 3% is over and above the provincial 4%. $2.5M also goes to Meetings Calgary	Edmonton Dev Marketing Hotels (EDMH) collect 3% DMF and give 65% to Edmonton Tourism for marketing & events. City funds all admin costs for ET $4M. An additional $1.5M comes from partnership marketing (not included in the rev$ above)

WESTERN CANADA PROVINCIAL RESEARCH

British Columbia

BC applies an 8% sales tax on hotels rooms. This tax goes into general revenues of the province. From these funds approx. $60 million is used to fund Destination BC. The province enacted in 2018 legislation that would permit regional district to introduce on behalf of municipalities the MRDT (Municipal & Regional District Tax Program) of up to 3%. The legislation permitted part of these revenues to also be used for affordable housing initiatives. This could only be done if the municipality applied to the provincial government and had full support of tourism industry and the accommodations sector. Furthermore, shared economy rentals would also now charge the MRDT but would also be subject to sharing the revenue with affordable housing initiatives. Vancouver, Victoria and Richmond have all retained their MRDT to fully fund tourism. 60 communities in BC apply a MDRT on hotel rooms and most are still at the previous level of 2%.

WESTERN CANADA PROVINCIAL RESEARCH

Alberta

Alberta presently has a 4% destination levy legislated at the provincial level which is flowed back into general revenues of the province. Travel Alberta is funded annually at less than 50% of the total collected fees. With recent changes in the Alberta government, funding to Travel Alberta may be at risk of being reduced. At this time there is no plan to change the existing levy or bring in enabling legislation for municipalities, which are presently unable enact a municipal lodging levy. However, several municipalities have introduced self directed DMF’s. There is no set rules as how these DMF’s are managed and distributed and therefore different models have emerged. In some cases the majority of the funds are redirected to the local DMO for marketing. In other cases the funds are managed by the local hotel association and dispersed on a project basis to the local DMO. Some of these hotel associations may also run parallel marketing campaigns to those run by the DMO. Calgary and Edmonton both charge 3% with most but not all revenue going back to their respective DMO’s. Canmore is also at 3% but with only 60% of hotels collecting. Banff/Lake Louise has instituted a Tourism Improvement Fee (TIF) of 2% which goes to market the destination through the DMO. Jasper, Red Deer, Medicine Hat and Lethbridge all charge 2%, while Grand Prairie changes 1%. Three hotel brands (Canalta Hotels, Heritage Hotels, Pomeroy Hotels) also collect in areas where there is no DMO and/or DMF and give back a portion to the municipalities to market tourism. Shared economy lodging at this point does not pay the 4% provincial levy or DMF levies. Fort McMurry, Slave Lake and Leduc have DMF’s under consideration. In general, a medley of VBA models, with little to no consistency throughout the province save for the provincial levy.

CENTRAL CANADA

	Saskatchewan		Manitoba
Destination	Regina	Saskatoon	Winnipeg
Self-directed	x	x	
Legislated			Municipal tax
% of room rate	3%	3%	5%
Estimated Rev	$2M	$2.8M	$9.5M
Estimated DMO $	$2M	$2.8M	$3.5M
Eligibility	DMF is collected by 23 hotels in the city (83% of hotels).	DMF is collected from 27 hotels that are part of the SDHMA (Saskatoon dev hotel marketing assoc)	All hotels, BnB's pay the DMF. Airbnb does not yet pay
Comments	The funds are managed by the Regina Hotel Assoc and used for marketing, sponsorship and some infrastructure seed money as was the case for a new stadium. Funds are granted based on project basis. Leisure marketing is through Tourism Regina whereas MC&IT marketing is under different management.	All funds are directed to Tourism Saskatoon from the SDHMA under a three year renewable agreement	The DMO is part of Winnipeg Economic Development . Revenues are split at 12% goes to a special events marketing fund to attract events, $1.5M to convention centre operations and 43% goes to convention centre debt service.

CENTRAL CANADA PROVINCIAL RESEARCH

Saskatchewan

At the present time Saskatchewan is not considering enabling legislation for VBA’s. VBA agreements are left to the local hotel industry and respective DMO’s to initiate. There are no provincial guidelines on how a VBA is to be governed and/or managed, hence the models differ slightly from destination to destination. Nevertheless, 3% seems to be the frequently agreed upon VBA rate. This lack of guiding principals and the willingness of the accommodations sector to participate in the program did lead in the past to a VBA collapse in one destination which was quickly replaced by a unique municipal assessment tax on hotel property which equaled the lost VBA revenues.

Manitoba

At this time there is no intention on behalf of the provincial government to introduce a provincial VBA or enabling legislation for municipalities. Several municipalities in Manitoba have self-directed VBA’s however, there are no set guidelines as to their management or governance. Some municipalities charge a % while others a dollar amount.

ONTARIO

	Ontario					
Destination	Ontario	Toronto	Brockville	Kingston	Ottawa	Waterloo
Self directed						
Legislated		Municipal	Municipal	Municipal	Municipal	Municipal
% of room rate		4%	4%	4%	4%	4%
Estimated Rev	$42M	$50M	$500K	$1.5M	$13M	$3.2M
Estimated DMO $	$42M	$32M	$500K	$1.5M	$13M	$1.5M
Eligibility	The MAT is governed at the municipal level and may include shared accommodations	All lodging establishments and shared accommodations are included in MAT	All lodging establishments are included in MAT	All lodging establishments are included in MAT	All, but BnB's can apply to be exempt under certain rules	All, but BnB's can apply to be exempt under certain rules
Comments	Destination Ontario is 90% funded by the provincial government. The remaining 10% is generated through marketing partnerships and initiatives. Municipalities are now empowered to tax hotel stays.	The city has reached agreement with Tourism Toronto to provide a level of funding consistent with the previous DMF model, with a yearly increase based on performance of the destination	Funds collected by City tourism dept and transferred back to DMO.	Funds collected by City and used to promote tourism	1% out of the 4% is reserved exclusively for tourism business development. Hotel Assn collects and distributes funding to the DMO; DMO manages all funds related to marketing and business development.	50% of the funds stay with the city to fund tourism related initiatives. Airbnb also collects the MAT on behalf of its hosts

ONTARIO PROVINCIAL RESEARCH

In 2018 the province enacted the Municipal Accommodations Tax legislation which empowers municipalities to tax hotel stays for tourism marketing and development purposes. The legislation does not mandate the tax percentage to be applied or how much of the collected funds must go to tourism marketing specifically; however, in those municipalities where there is an existing DMO, the DMO funding level must be at a minimum consistent with its pre-legislation budget. Many municipalities have adopted a 50-50 rule sending half of the collected revenues to the local DMO. 4% seems to be the general consensus among Ontario municipalities when implementing their legislated VBA's.

There is no intent currently to consider a VBA at the provincial level to bolster Destination Ontario's budget.

In Toronto, a by-law was passed requiring short-term rentals such as AirBNB to abide by the same rules as the hotel industry. The by-law was contested by shared economy stakeholders in 2019 but the final verdict upheld the by-law and is now in effect.

QUEBEC

	Québec			
Destination	Québec	Montréal	Québec City	Eastern Townships
Self directed				
Legislated	Provincial	Provincial	Provincial	Provincial
% of room rate	3.5%	3.5%	3.5%	3.5%
Estimated Rev	$90M	$48M	$25M	$2.5M
Estimated DMO $	$14M	$40.8M	$11.25M	$2.125M
Eligibility	All, including BnB's & Airbnb			
Comments	In 2016 the province legislated a province wide hotel tax of 3.5%. Each tourism region contributes to the provincial tourism organization (l'Alliance de l'industrie touristique du Québec) 15% of receipts generated from the DMF	Montréal collects the most of any city in the province. Part of their revenue is assigned specifically for funding of the annual F1 Grand Prix Race agreed to by the local hotel association. They also have the highest concentration of Airbnb rentals in Canada.	The DMO is a department of the City of Québec	20% of funds are used for product development. 20% of a member's partnership marketing contribution is used for marketing credits back to members' future participation in other marketing initiatives.

QUEBEC PROVINCIAL RESEARCH

In 2016, the province changed its marketing entity from a ministerial department to a not-for-profit agency combining the provincial DMO association, the sectorial association, the tourism industry association and marketing into one overarching tourism agency called L’Alliance de l’industrie touristique du Québec. This agency receives 15% of VBA funds collected in all 22 regional RTO’s. These funds are used to market the province outside of Québec.

The provincial VBA is legislated at a rate of 3.5% assessed on all lodging establishments. The lodging legislation was recently changed to include short-term rentals which now must also pay all applicable taxes and levies. The ministry of tourism has recently recruited several compliance officers to monitor short term rentals and apply this new legislation.

ATLANTIC CANADA

Atlantic Canada					
Destination	Halifax	Saint John	Charlottetown	St-John’s	Moncton
Self-directed		X	X		
Legislated	Municipal			Municipal	Municipal
% of room rate	2%	3.5%	3%	4%	3.5%
Estimated Rev	$2.5M	$1.1M	$1M	$3.5M	$2.6M
Estimated DMO $	$1.5M	$1.1M	$750K	$1.3M	TBA
Eligibility	Collected from accommodation establishments of 20+ rooms	All lodging establishments	DMF is applied to all establishments of 10+ rooms. Working on having smaller establishments pay as well. Airbnb is also being defined and targeted for the levy.	DMF applies to all roofed accommodations. Airbnb has not yet been legislated.	All lodging establishments
Comments	Paid to the city and transferred to DMO. 60% of the funds go to tourism marketing at Discover Halifax and 40% to festivals and events development at the city’s cultural department	New Brunswick recently implemented provincial legislation enabling municipalities to implement a destination levy on hotel rooms. Moncton, Fredericton and Saint John have agreed to set the levy at 3.5%. Saint John is still pending approval of the city.	The revenue is split three ways at 1% each; a third to Meetings and Conventions PEI, a third to Discover Charlottetown for leisure marketing and a third to a special events reserve fund.	City collects from the hotels quarterly and remits back to DSJ $1.3 million per year. The remainder goes to underwrite the debt on the new convention centre.	New Brunswick recently implemented provincial legislation enabling municipalities to implement a destination levy on hotel rooms. Moncton, Fredericton and Saint John have agreed to set the levy at 3.5%. Moncton is now collecting as of Fall 2019.

ATLANTIC CANADA PROVINCIAL RESEARCH

Prince Edward Island

There is no VBA at the provincial level, although there is talk of looking at a new model which would generate extra revenues for tourism marketing. This could be in the form of a VBA or the government simply providing funding based on performance of key tourism metrics in the province. The province has a tourism accommodation law which by its definition does encompass short term rentals, requiring all lodging establishments to be licensed by the province to operate. The province now has compliance officers monitoring the web and doing inspections to ensure compliance. Information packages are sent to non-registered establishments as the first phase, followed by fines if non-compliance continues. All licenced establishments adhere to a mandatory occupancy regime, in which monthly reporting is uploaded to the province. Establishments report monthly the # of rooms available, # of rooms sold and geographic origin of the guests. This program was stakeholder driven as of 2006. Charlottetown is presently working on a by-law to reduce the minimum of10 rooms to collect the VBA to all rooms rented including AirBnB type rentals.

New Brunswick

The province passed enabling legislation in 2019 for municipalities to collect a hotel tax. This is presently in the implementation stage in Moncton, Fredericton and Saint-John. Only incorporated municipalities have the right to implement this by-law; regional service commissions are excluded from this privilege. There has been consensus among the three main cites to set the tax at 3.5%.

ATLANTIC CANADA PROVINCIAL RESEARCH

Nova Scotia

The province of Nova Scotia considered a province wide VBA to help fund Tourism Nova Scotia but upon further analysis concluded that the extra funds gathered through a VBA would not be worth the political capital and administrative costs. Therefore, status quo exists whereby Halifax and Cape Breton have a VBA of 2% and Yarmouth a VBA of $2. Any municipality that wants to enact a VBA must first gather community support and then apply to the province for enabling legislation.

Halifax recently lobbied to increase the contribution to the DMO but was denied. There is also a movement within city council to try and redirect VBA funds to help off set construction costs of a new football stadium. The local industry has come out against this proposal.

Newfoundland

Presently there are two types of VBA's in the province, municipally legislated as in St-John's and self directed (3%) as is the case in Gros Morne, The Viking Trail and Southwest Region. St-John's, Mount Pearl and Cornerbrook have a special permissive municipal act status. The province presently has under review enabling legislation which would empower all municipalities to enact a VBA , if it is supported by the local tourism industry, is collected by the city for a small administration fee and guarantees the funds are directed to tourism marketing and initiatives. This legislation may come into effect in 2020.

There is no intent at this time to consider a province-wide VBA.

US CITY SAMPLE GROUP

The following cities in the US have been selected as a sample VBA group. Estimated revenues are in US dollars.

GENERAL AMERICAN FEEDBACK

- There are set rules around VBA’s however, they are apt to be changed periodically by municipal, county and state governments based on budget short falls and/or development needs.
- Lodging taxes are somewhat of a misleading term as the paying hotel guests do not fully understand the distribution model is used for more then just tourism marketing as generally perceived.
- The majority of DMO’s only receive on average 10-20% of the overall lodging taxes collected. Again these percentages are generally not guaranteed on a long term basis and may fluctuate from year to year.
- Lodging taxes are also used to finance convention centre operation, convention centre development or expansions, sport stadium development, arts and cultural development and/or operations, city beautification initiatives and homelessness mitigation.
- In some cases leisure marketing is overseen by the local DMO while all business events development is overseen by a totally different entity, both financed by lodging taxes.

EASTERN US

	Eastern United States			
Destination	Boston	New York	Washington	Miami
Self directed				
Legislated	x	x	x	x
% of room rate	14.95%	14.75%	14.95%	6%
$ per room US$		+ $3.50 per day		
Estimated Rev US$	$278M	$630M	$252M	$264M
Estimated DMO US$	N/A	$21.2M	$18M	$32M
Eligibility	All lodging. Short-term rentals as summer 2019	All lodging. Short term rentals should also pay lodging taxes but it is left to the owner of the units to pay. It is not collected on the online platform.	All lodging and short term rentals	All lodging and short term rentals
Comments	City hotel tax 6.5%, 5.7% state hotel tax, 2.75% for convention centre.	NYC hotel room occupancy tax is 5.875% + excise room tax $2 per room/night . + $1.50 per room/night for the Javits centre expansion fund. Sales tax on top of 8.5% and a public transport tax of 0.375%	Tax breaks down to 10.05% general city fund, 4.45% to Events DC (convention centre) , 0.15% to service the debt on the Marriott Marques. Destination DC receives 0.67% from Events DC and 0.30% directly from the 14.95%. Destination DC receives 0.97% of main tax.	There are two hotel taxes in Miami. A Miami resort tax of 3% and a Miami Beach hotel tax of 3%. Outside Miami Beach the 3% is not charged. DMO gets 12% of all tourist taxes collected.

CENTRAL US

	Central United States			
Destination	Chicago	St. Louis	New Orleans	Dallas
Self directed				
Legislated	x	x	x	X
% of room rate	17%	22%	16.35%	15%
$ per room US$			Plus $1-$2/night	
Estimated Rev US$	$220M	$233M	$200M	$68M
Estimated DMO US$	$20M	$17M	$21.1M	$20M
Eligibility	All lodging.	All lodging and short term rentals. Short term rentals accounted for $4.1 million in state lodging taxes in 2018	All lodging and short term rentals. Short term rentals have a slightly different tax structure	All lodging and short term rentals
Comments	Short term rentals are taxed under another city tax not included in the lodging tax.	Out of the 22% only 3.75% is earmarked for tourism, 2,8% of which goes to tourism S&M and 0.95% to the regional arts commission. Another 3.5% goes to the convention centre managed by the DMO. 4.2% goes to the state lodging tax.	Convention centre receives $51.2M, Stadium district $60.5M	City lodging tax 7%, State hotel tax 6%, tourism public improvement district lodging tax of 2%. $45.8M goes to convention centre. There is public pressure to reduce DMO funding to increase arts funding.

WESTERN US

	Western United States			
Destination	Seattle	Portland	San Francisco	San Antonio
Self directed				
Legislated	X	X	X	X
% of room rate	15.6%	15.3%	14.195%	16.75%
$ per room	Plus $2/room			
Estimated Rev US$	$110M	$118M	$439M	$86.3M
Estimated DMO US$	$9.2M	$3M	$28M	$13M
Eligibility	All lodging and short-term rentals	All lodging and short term rentals	All lodging and short term rentals	All lodging and short term rentals
Comments	Legislated to distribute tax revenues, 37.5% to affordable housing, 37.5% to the arts, 25% to tourism and sports which includes stadium funding	City 6% of which 1% goes to Travel Portland, county 5.5% of which 5.225% goes to convention centre and .275% goes to DMO, 2% tourism improvement district tax which goes to DMO.	Hotel room tax is 14%, California tourism fee of 0.195%. Some also charge 1.5 to 2.5% for business district fee.	Tax is made up of city hotel tax 9% (2% of that directly to Convention Centre), county hotel tax 1.75%. 6% collected for the county.

BEST PRACTICES

VBA Collection

- In the case of a self-directed VBA, establish a third party collection entity with proper governance and quarterly accountability.
- Progress from a self-directed model to a legislated VBA

VBA Management

- If a self-directed VBA , ensure all participating hotels sign onto a reporting and collection agreement
- DMO should initiate a marketing committee made up of stakeholders to guide fund utilization
- DMO should lead decision-making process around use of tourism development funds

VBA Reporting/Communications

- Whether legislated or self-directed, yearly DMO auditing and reporting on the use of funds with accompanying KPI's should be established
- Clear reporting should be available on accessible DMO web site
- Key data points from the lodging establishments should be uploaded to local DMO or to province

RISK ASSESSMENT AND MITIGATION

Risk	Description	Assessment	Mitigation
Hoteliers perceive VBA as a competitive disadvantage and/or generator of guest complaints.	➢Hoteliers are frequently risk-averse when it comes to adding fees to guest folios, or adding charges that are not already prevalent within their competitive set. ➢ Risk is rated as "Low", given that most destinations already have a VBA in place, and the travelling public is accustomed to seeing the charge on their folio. Risk is obviously elevated for destinations that operate in competitive jurisdictions where VBA's are not prevalent	LOW	Education of hotel groups by sharing examples of successful VBA destinations
Hoteliers insist on control over how funds are utilized and/or control over dmo board.	➢This risk is elevated for destinations that employ a self-directed VBA, as hoteliers can withhold their participation or withdraw from an existing program if their demands for control aren't met. The risk is lower for destinations that employ a legislated hotel tax where participation is mandatory for all lodging establishments and hotel leverage is limited. ➢ Risk is rated as "Moderate to High" for self-directed VBA's; "Low" for legislated VBA's.	MODERATE	Provide hotel sector with significant representation on the DMO board consistent with their overall contribution, without providing outright control..
Self-directed VBA lacks sustainability due to threat of hotels pulling out.	This risk can be elevated during times of municipal and provincial elections, as was evidenced in New Brunswick during the provincial election of 2018. For provinces, the risk is largely mitigated through the passing of enabling legislation whereby the responsibility for implementing a hotel tax is passed on to the municipalities……again as was evidenced in New Brunswick in 2019, and Ontario in 2017. Thus far, most municipalities have been eager to implement the tax and have received general support from their local tourism industry and media.	MODERATE	Encourage the passing of enabling legislation and educate media and politicians at all levels about the economic benefits of a well-managed VBA program

RISK ASSESSMENT AND MITIGATION

Risk	Description	Assessment	Mitigation
Media and/or politicians perceive legislated VBA as “another tax” and are non-supportive of implementation	➢Under a self-directed VBA, individual hotels have the option of participating or not. Some corporate hotel brands have restricted their hotels from participating in self-directed VBA’s, largely due to concerns regarding competitiveness raised by Canada’s Competition Bureau. Independent hotels have frequently opted out of self-directed programs for a variety of reasons. The lack of a sustainable funding source negatively affects a destination’s long term marketing strategies and programs.	MODERATE	Using research and examples, educate the local industry and government about the benefits of legislated VBA’s versus self-directed programs.
City utilizes a portion of funds for capital programs and/or non-tourism purposes	➢This risk is elevated for destinations that implement a legislated VBA where hotel participation is mandatory and fund distribution is largely the responsibility of the municipal/regional government. The potential for non-tourism use of funds has already been evidenced in some destinations. ➢Municipalities use these funds to help finance art and cultural projects even though these are sometimes more for the local community than for tourists. ➢A disproportionate percentage of funds may be used to finance the building of convention centres or sports facilities.	LOW for self-directed MODERATE for legislated VBA’s	Develop a high degree of awareness of, and participation in, the tourism industry by government representatives. Educate government on the economic benefits of responsible investment in the tourism industry. Ensure the DMO is involved in reviewing and authorizing new projects to ensure they are tourism related.
Self-directed funds are collected by hotels but not remitted entirely to DMO; funds retained by hotels for their own marketing programs and other purposes.	➢While this particular risk is not commonplace, it is also not without precedent. Such programs run the risk of negative public and media attention, in addition to possible legal implications. It also takes away from the DMO’s full funding potential and destination marketing strategies and programming.	LOW as there are very few examples of this particular misuse taking place	Encourage government to move to a legislated VBA model.

RISK ASSESSMENT AND MITIGATION

Risk	Description	Assessment	Mitigation
Short term rentals are not part of the VBA collection group and are not charging or remitting the VBA.	➢Short term rentals have overrun certain destinations as developers are building short term rental real estate. ➢AirBNB, the largest of the short-term rental companies, has been slow to negotiate with destinations to implement tax and VBA collection. ➢Municipalities, provinces and states are now initiating legislation to reign in the short-term rental industry.	HIGH as many cities with VBA's have not entered into formal agreements with AirBNB et al to collect the VBA and other city and/or provincial taxes, resulting in significant DMO revenue and tourism development funding being left on the table	Encourage municipal governments to enter into formal agreements with Air BNB and other shared economy stakeholders (VRBO, Homestay, etc), with respect to VBA collection, local business taxes and insurance requirements
Ontario-based municipalities may successfully lobby the provincial government to enable them to retain greater than 50% of legislated VBA funding. The risk may be higher for large municipalities that generate millions of dollars in VBA funding.	➢Municipal councils are frequently tempted to divert purposed tax revenues into general revenues when the opportunity or need arises. ➢Municipalities may expand the definition of "tourism related" in order to meet their general budgetary requirements.	MODERATE as most municipal gov'ts will experience and recognize the benefits of partnering with DMO's under a successful VBA and will be reluctant to make detrimental changes and deal with a motivated response from industry	The DMO and its board should develop and implement a government relations strategy aimed at demonstrating to local municipal councils the many economic and community benefits emanating from a well-funded DMO and tourism industry.

STRATEGIC OBJECTIVE FOR DMAC ON VBA'S

Based on the information outlined in this report the following statement has been elaborated as a strategic objective.

"To deliver an effective education and communications program to government and industry, promoting the adoption of a consistent, accountable and productive use of VBA's for the betterment and positive economic impact of destinations and the tourism industry".

RECOMMENDATIONS

1. DMAC, in conjunction with TIAC and its provincial counterparts, to create a government communications strategy aimed at educating municipal and provincial governments on the importance of tourism investments through sustainable and dedicated VBA legislation.

2. DMAC to produce a best practices document and step-by-step VBA implementation manual, available to municipalities and provinces considering VBA legislation.

3. DMAC to work with the Conference Board of Canada to expand their annual report to include other key metrics related to VBA programs.

4. Work with the Hotel Association of Canada on a standard communications piece distributed country wide to hoteliers, explaining and educating the industry and communities on the purpose and benefits of a VBA.

5. DMAC to develop, in cooperation with industry stakeholders, a standardized set of national tourism Key Performance Indicators (KPI's).

NEXT STEPS

Recommendation 1: Government Communications Strategy

- Illustrate why a municipality should consider tourism as a sector in which to invest.
- Define what constitutes tourism related experiences and infrastructure.
- Determine if the municipality offers enough in the way of tourism experiences and hotel inventory to warrant a VBA and a tourism strategy.
- Develop a quick evaluation tool to determine suitability.

Recommendation 2: Best Practices and Guiding Principles Document

- VBA funds to be collected by an independent 3rd party or a municipal entity.
- Ensure full disclosure and transparency of funds collected via regularly scheduled audits.
- Strongly emphasize the need for VBA funds to be used in their entirety for tourism promotion and growth.
- Invest in the development of a destination tourism strategy.

NEXT STEPS (cont'd)

Recommendation 3: Conference Board Report

- Include a section on VBA funds collected across Canada.
- Determine and report the economic impact of VBA funds.
- Determine and report the positive impact of VBA funds on visitation numbers and spending.
- Report on the development of new tourism products funded in whole or in part by VBA funds. These should be limited to soft product development and not infrastructure needs.

Recommendation 4: HAC Communications Piece for Hoteliers

- HAC to distribute education and information piece to hoteliers across Canada.
- HAC to offer VBA education as part of training and conferences.
- Provide FAQ responses for front line staff.
- Local DMO web site to include a VBA information page to which clients can be referred.

NEXT STEPS (cont'd)

Recommendation 5: Industry Standardized KPI's

- Working with industry stakeholder from across the country develop a high-level set of metrics any DMO and/or city tourism department can implement
- Ensure these metrics can be compared year over year
- These KPI's must be measurable and should encourage growth of the sector
- National statistics reporting of these metrics to be considered

CONCLUSION: A PREFERRED VBA MODEL

Based on the benchmarking research conducted by FLOOR13 of VBA models in Canada and the US, we have compiled a list of best practiCes that reflect what we consider to be integral elements of a preferred VBA model for a Canadian destination.

BEST PRACTICES

- The governance supporting the hotel levy is that of a legislated model rather than a voluntary model, resulting in a hotel tax that requires 100% participation of lodging establishments, including short term rentals such as AirBNB.
- The percentage to be collected, while remaining competitive with other destinations, is sufficient to provide the DMO with adequate funding for marketing, promotional and administrative purposes, as well as seed funding for new product development and event solicitation.
- The collection and flow of funds between hotels, province/municipality and DMO is governed by a tri-partite agreement that states the purpose of the levy, and the roles and responsibilities of each party. The agreement reflects the parties' commitment to utilize 100% of VBA funds for the purpose of promoting the destination (+/- 75%) and developing its tourism product (+/- 25%).

CONCLUSION: A PREFERRED VBA MODEL

BEST PRACTICES (cont'd)

- A Service Level Agreement is signed between the Municipality and the DMO which confirms the Municipality's responsibility to remit 100% of VBA funds to the DMO, and the DMO's responsibility to provide destination marketing and tourism development services to the municipality/destination.
- The DMO retains the *tourism development funds* in trust, and a senior stakeholder council representing industry, DMO and municipality are responsible for determining and approving the expenditure of those funds on a case-by-case basis. It is not the sole responsibility of the municipality to determine and approve the expenditure of tourism development funds.
- Reporting/audit of VBA collection by the hotels is conducted on a regular basis to ensure financial and legal compliance. Annual KPI's and audit established for the DMO to ensure strategic use of VBA funds.
- Of the destinations that were included in our research, the Ottawa VBA model demonstrates the most effective collection, disbursement and management of VBA funds.

APPENDIX A - ACRONYMS

BC	British Columbia
BNB	Bed & Breakfast Lodging
CDN	Canadian
DMAC	Destination Marketing Association of Canada
DMF	Destination Marketing Fund
DMO	Destination Marketing Organization
DMP	Destination Marketing Program
DSJ	Destination St-John’s
EDMH	Edmonton Development Marketing Hotels
GDP	Gross Domestic Product
HAC	Hotel Association of Canada
INT’L	International
KPI	Key Performance Indicators
MC&IT	Meetings, Conventions & Incentive Travel
MAT	Municipal Accommodations Tax
MRDT	Municipal & Regional District Tax
NB	New Brunswick
ONT	Ontario
PMO	Provincial Marketing Organization
QUE	Quebec
RTO	Regional Tourism Organization
S&M	Sales & Marketing
US	United States
VBA	Visitor Based Assessment
VHDMA	Victoria Hotel Destination Marketing Association

SOURCES:

F13 conducted its research by using budgets, financial statements, city ordinances, state & provincial laws and information provided by city, provincial and state officials as well as destination marketing organizations.

DMAC – Visitor Based Assessment Study

116 Lisgar Street, Ottawa, Ont.