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## 2004 BUDGET BRIEFING NOTE: Tourism Toronto and Destination Marketing Fee

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### Issue:

The purpose of this briefing note is to update Budget Advisory Committee on the 3% Destination Marketing Fee (DMF) implemented by The Greater Toronto Hotel Association (GTHA) and the potential impact on the City's contribution to Tourism Toronto for destination marketing.

### Background:

The City of Toronto is the principal funding partner of Tourism Toronto, the City's official tourism destination marketing organization. The Tourism Division's 2004 EMT Recommended Operating Budget includes \$4.23 million as the City's contribution for destination marketing services delivered on behalf of the City.

The Five Year Tourism Action Plan (TAP) dated May 30, 2003 and adopted by Council, September 22-25, 2003, identified that Tourism Toronto's ability to market Toronto as a destination was placed at a growing disadvantage vis-a-vis its competitors without some form of stabilized, long-term user-pay funding mechanism. Vancouver was the first to adopt a hotel tax (2% on room rate) in 1985 and since then Victoria, Whistler, Montreal, Quebec City and Halifax among others have instituted some form of tax, allowing them to expand their marketing reach while Toronto's reach has been declining resulting in a competitive disadvantage .

The Tourism Action Plan (2003) recommended a two-stage approach: 1) In the Short term the GTHA initiate a self imposed 3% levy that would mirror a hotel tax, to be used for destination marketing. 2) In the long term the City of Toronto, Tourism Toronto and all stakeholders in the municipal tourism industry continue to encourage the provincial government to enable a hotel tax.

Toronto City Council recommended as part of the 2003 Operating Budget process, (February 24-28, 2003) that: "The GTHA be encouraged to levy a voluntary room promotion tax similar to the proposal submitted to the Provincial Government in 2002 for a hotel room tax".

In December 2003, the GTHA announced that more than 100 Toronto area hotels agreed to a Destination Marketing Fee consisting of a 3% charge on guests' hotel room bills. The fee will appear as an expense item on hotel bills. The fee is conditional on the total of the DMF, PST and GST not exceeding 15%.

The Greater Toronto Hotel Association has an agreement with all its member hotels that outlines the terms and conditions of the Voluntary Destination Marketing Fee. The GTHA has signed a three-year legal agreement for Destination Marketing Services with Tourism Toronto. The GTHA will

work with Tourism Toronto, in the event of a legislated tax or fee for the sole purpose of destination marketing for GTA, to the extent necessary to ensure an effective transition between this Agreement and a legislated room or lodging tax or fee system.

The (DMF) "Marketing Plan 2004 –2006" was approved by the Board of Directors for Tourism Toronto on December 11, 2003. The Destination Marketing Fees will be collected by GTHA and transferred to Tourism Toronto on a quarterly basis. Tourism Division staff participated in the development of the marketing plan.

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**Key Point(s):**

- The three-year legal agreement for Destination Marketing Services between GTHA and Tourism Toronto commenced on January 1<sup>st</sup> 2004 and is dedicated to a global destination marketing initiative to generate incremental meeting, convention and leisure travel to Toronto.
- The GTHA and Tourism Toronto estimate that the DMF will generate between \$15 to \$19 million in revenue annually.
- The City has an agreement with Tourism Toronto that stipulates the terms and conditions for Tourism Toronto to provide destination marketing services for the City and to ensure that the City's destination marketing objectives are being met. The Tourism Division's 2004 EMT Recommended Operating Budget includes \$4.23 million as the City's contribution for destination marketing services delivered on behalf of the City.
- The previous Tourism Toronto Partnership Agreement was signed in January 2000 and expired December 31, 2002. A Staff Report requesting an extension of the agreement to September 2004 was recommended by EDPC on the February 2, 2004 and will be before Council March 1, 2004. The Commissioner is to ensure that the new agreement reflects the City of Toronto's tourism objectives outlined in the recent Council approved Tourism Development Action Plan.
- With the timing of the redrafting of the current partnership agreement between the City and Tourism Toronto there is an opportunity for the Tourism Division to review the City's functional relationship with Tourism Toronto and to develop the agreement to ensure that marketing activities delivered by Tourism Toronto are compatible with the City's economic development and tourism objectives.
- Revenues received from the DMF along with the City of Toronto Partnership Agreement and Provincial tourism commitments form the foundation for a comprehensive and integrated tourism sales and marketing plan. It is a scalable plan; meaning that the strategies presented would be the same whether the magnitude was \$9.0 million or \$19.0 million.
- At the Economic Development and Parks Committee meeting of February 9, 2004, the 2004 Operating Budget was reviewed and directed the Commissioner of Economic Development, Culture and Tourism meet with the Chair of the Economic Development and Parks Committee and the President of Tourism Toronto to work out an amicable arrangement on a go forward

basis and report thereon to the Economic Development and Parks Committee on reducing the funding allocation to Tourism Toronto such monies to be used to improve the City's infrastructure, such as the Beautification Program and the Clean City Program, which would be complimentary to the Tourism strategy".

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**Questions & Answers:**

**Q. Is the 3% DMF a tax?**

A. No, this is a voluntary fee that approximately 100 Toronto area hotels (member hotels of GTHA) have agreed to pay to generate additional funds for Marketing.

**Q. What will the revenue be used for?**

A. The money will be collected by the GTHA and passed on directly to Tourism Toronto, where it will be dedicated to a global destination marketing initiative to generate incremental meeting, convention and leisure travel to Toronto.

**Q. What other Cities have similar "funding" mechanisms?**

A. Most cities in North America including Victoria, Whistler, Montreal, Quebec City ,Halifax, Washington, Chicago and New York City have had dedicated funding mechanisms in place for years.

**Q. Are there any changes to the funding and requirements of Tourism Toronto pertaining to the \$4.23 City contribution for destination marketing?**

A. City representatives will meet with Tourism Toronto to discuss and jointly develop a plan to use the City contribution to improve the competitive position of Toronto's tourism industry.

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**Date: March 1, 2004**