

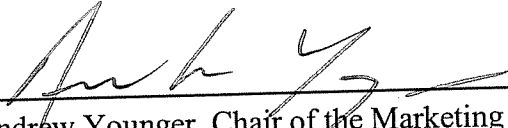
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Halifax Regional Council
August 1, 2006

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY: 
Councillor Andrew Younger, Chair of the Marketing Levy Committee

DATE: July 20, 2006

SUBJECT: Marketing Levy Working Committee Report

ORIGIN

On April 1, 2002, Halifax Regional Municipality's Marketing Levy By-law (By-Law H-400) came into effect and the hotel tax rate was established at 1.5% of the daily room rental fee.

September 20, 2005 Council Report requesting the 1.5% Hotel Marketing Levy rate increase to 2% effective January 2, 2006.

June 21, 2005 Council Report recommended the approval of the establishment of a Major Events Facilities Reserve, funded in part by the 0.5% increase in the Marketing Levy Tax.

September 20, 2005 Council referred the issue of the use of the 0.5% increase to the Marketing Levy to the Marketing Levy Working Committee, in an effort to bring back a workable solution where all sides were considered and all implications dealt with.

March 22, 2006 Council Report recommending that Regional Council approve the terms of reference of the Marketing Levy Working Committee to enable the Committee to provide input on the issue of major facility investment, the major events hosting strategy and the special events reserve

RECOMMENDATION

It is recommended that the service agreement between the Halifax Regional Municipality and Destination Halifax be developed, and as per the terms of reference of the Marketing Levy Working Committee, be referred back to the Committee for review. The service agreement should be based on the following recommendations:

RECOMMENDATIONS CONTINUED . . .

1. the approved marketing levy major events fund recommendations (report dated August 1, 2006)
2. a distribution of the 2% hotel levy in the amounts of two thirds (2/3) to Destination Halifax and one third (1/3) to the Halifax Regional Municipality with one sixth (1/6) supporting the Marketing Levy Major Events Fund and one sixth (1/6) supporting a specific facility reserve
3. the percentage break down as proposed above will apply to any future increase to the marketing levy tax as legislated by the Province
4. the specific facility reserve, as noted in point number two (2), be a dedicated reserve to be used for the construction or expansion of a new convention centre facility

BACKGROUND

On April 1, 2002, Halifax Regional Municipality's Marketing Levy By-law (By-Law H-400) came into effect. The By-law requires properties within the Municipality with twenty or more rooms to levy a tax on each room sold and remit the tax collected to the Municipality on a monthly basis.

The Halifax Regional Municipality Marketing Levy Act, which enabled the Municipality to enact the By-law, provides for a levy of up to 2% of the purchase price of the accommodation. Originally, the hotel tax rate was established at 1.5% of the daily room rental fee. The tax revenues collected were distributed 1/3 to HRM Special Events Reserve Account and 2/3 to the Hotel Association of Nova Scotia to develop a destination marketing organization; Destination Halifax, for tourism marketing purposes.

As a result of a decision of Halifax Regional Council on September 20, 2005, the Hotel Marketing Levy rate increased to 2% effective January 2, 2006. At the time, staff recommended the .5% increase be deposited into an HRM major facilities reserve account. The Hotel Association and Destination Halifax requested that the .5% be distributed in accordance with the existing formula as outlined in the Memorandum of Understanding; ie. 2/3 to Destination Halifax and 1/3 to HRM's Special Events Reserve.

As a result of the discrepancy, the Marketing Levy Working Committee, which is a joint committee of representatives from HRM and the tourism industry, was established to advise Council and oversee the process of determining the distribution and use of the additional funds generated by the increase, and ensure that the use of the funds reflects the spirit of the provincial legislation and municipal by-law which govern the Marketing Levy.

DISCUSSION

For the past number of years, the tourism industry and the Hotel Association of Nova Scotia have worked together to better coordinate tourism marketing efforts and to secure a more appropriate revenue source that supports integrated and expanded efforts through the Marketing Levy. The primary focus of this coordination has been in the development of a destination Marketing organization, Destination Halifax which is supported by 2/3 of the Marketing Levy collected by hotels located within the Municipality.

However, because the funds generated from the Marketing Levy are not part of the general tax rate, the Hotel Association feels they should have an expanded role in making decisions around the full 2% collected. It is felt the re-investment of the Marketing Levy should be done with direct industry input. This is reflected in the recommendations of the Marketing Levy Working Committee.

The Committee strongly suggests the 2% collected from the Marketing Levy continue to be divided 2/3 to Destination Halifax and 1/3 to the Halifax Regional Municipality. They also recommend the 1/3 distributed to HRM should support both the Marketing Levy Major Events fund as well as a major facilities reserve which will support the construction or expansion of a major convention facility (1/6 and 1/6). Further, the Marketing Levy Committee has drafted a terms of reference for a committee to over see the funding of major events from the Marketing Levy and has developed policy and criteria for the dissemination of these funds. It is hoped that having more strict criteria may prevent funding events which do not play a significant role in advancing the economic development of the HRM.

BUDGET IMPLICATIONS

Funds available to HRM from the Marketing Levy vary annually, but are generally in the range of \$750,000 to \$1,000,000

FINANCIAL MANAGEMENT POLICIES / BUSINESS PLAN

This report complies with the Municipality's Multi-Year Financial Strategy, the approved Operating, Capital and Reserve budgets, policies and procedures regarding withdrawals from the utilization of Capital and Operating reserves, as well as any relevant legislation.

ALTERNATIVES

Council may choose not to support the recommendations in this report.

ATTACHMENTS

- A) Memorandum of Understanding between HRM and the Hotel Association of Nova Scotia
- B) Halifax Regional Municipality Marketing Levy Act
- C) Chart of various levy break down options

A copy of this report can be obtained online at <http://www.halifax.ca/council/agendasc/cagenda.html> then choose the appropriate meeting date, or by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

Report Prepared by: Marion Currie for the Marketing Levy Working Committee

ATTACHMENT A

MEMORANDUM OF UNDERSTANDING

between

The Halifax Regional Municipality

and

The Hotel Association of Nova Scotia

- Whereas: The Halifax Regional Municipality (HRM) Council has approved a resolution requesting that the Province of Nova Scotia introduce enabling legislation that would provide HRM with the authority to levy a hotel room tax;
- Whereas: The HRM Council has approved the form of the legislation enabling the HRM to levy the hotel room tax;
- Whereas: The HRM Council has endorsed the concept of a Destination Marketing Organization (DMO) that will coordinate tourism marketing efforts in the Municipality;
- Whereas: The details of the collection and expenditure and governance of the tax will be addressed by the HRM Council in the form of a By-Law following Provincial approval of the enabling legislation;
- Whereas: The Hotel Association of Nova Scotia (HANS) has been the initiator of the DMO concept and the raising of its funding through a hotel room tax; and
- Whereas: HANS and HRM will be an integral component in the planning and implementation of the activities of the DMO; therefore:

The Senior Staff of the HRM, in consultation with the HANS, have agreed to recommend the following principles to HRM Council with respect to the establishment of a Destination Marketing Organization:

- 1.1 HANS is responsible for defining the make-up of the Board of Directors of the DMO. Earlier discussions between HRM and HANS should be used as guidance. HRM will require 2 (two) representatives (1 elected, 1 staff) on the Board. The transition of HRM staff and resources will be subject to the approval of the Deputy CAO, Dan English.

- 1.2 The objective of the DMO is to combine the marketing efforts of a number of existing organizations within HRM in the implementation of annual marketing plan designed to increase tourism visitation to and expenditure within HRM on a year-round basis and aimed at the business, leisure and convention markets;
- 1.3 The DMO will incorporate the marketing mandate and associated budgets of the Greater Halifax Meetings & Convention Bureau (GHCMB); and the marketing component of the HRM Department of Tourism, Culture and Heritage; and will coordinate these mandates with the marketing efforts of the World Trade and Convention Center and the Province of Nova Scotia as appropriate.
- 1.4 Through a consultative process, the DMO will prepare long term and annual marketing plans, including budgets, and provide for a broad distribution of the contents to its stakeholders and interested parties.

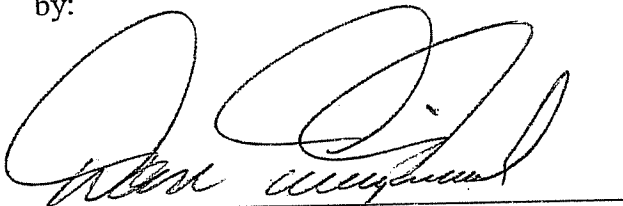
With respect to the implementation of the hotel room tax, the Halifax Regional Municipality, the Hotel Association of Nova Scotia have established the following principles:

- 2.1 The hotel tax rate will be established at 1.5% of the daily room rental fee, applicable to all tourism accommodation properties containing 20 or more rental rooms (final room number will be determined in consultation with the industry);
- 2.2 All adjustments to the setting of the tax rate and applicable property size will require the approval of Council considering the recommendation of the DMO.
- 2.3 The tax revenues collected will be distributed 1/3 to the HRM Special Events Reserve Account and 2/3 to the DMO for marketing purposes;
- 2.4 The DMO will be consulted when consideration is being given to expending funds from the Special Events Reserve for the purpose of bidding for events;
- 2.5 That when the Special Events Reserve reaches a balance of \$1 million the surplus will be deposited into a "Tourism Opportunity Fund Reserve". The purpose of this reserve is to provide additional resources for opportunities in tourism development that will create incremental growth in the tourism industry within HRM; e.g. research to guide HRM's tourism development, development of Signature Attraction(s), participation in development of new meeting and convention facilities. The fund would only be accessed with the approval of Council considering the recommendation of the DMO.
- 2.6 The applicable funds to be distributed to the DMO will be paid in advance, on a monthly basis, based on the previous year's performance for that month. Corrections will be made on a monthly basis.


2.7 The hotel tax is understood to be the source of incremental marketing funds and it is intended that all stakeholders will maintain their level of funding support currently associated with the existing marketing organizations prior to the establishment of the DMO.

2.8 The DMO will submit an annual business plan and budget in accordance with HRM business planning cycle.

Agreed and accepted on this 23rd day of August, 2001, in the Halifax Regional Municipality
by:



Dan English
Deputy CAO, Halifax Regional Municipality



Paul Stackhouse
President, Hotel Association of Nova Scotia

ATTACHMENT B



Halifax Regional Municipality Marketing Levy Act

CHAPTER 51

OF THE

ACTS OF 2001

NOTE - This electronic version of this statute is provided by the Office of the Legislative Counsel for your convenience and personal use only and may not be copied for the purpose of resale in this or any other form. Formatting of this electronic version may differ from the official, printed version. Where accuracy is critical, please consult official sources.

An Act to Authorize a Marketing Levy in Halifax Regional Municipality

Short title

1 This Act may be cited as the Halifax Regional Municipality Marketing Levy Act. *2001, c. 51, s. 1.*

Interpretation

2 In this Act,

(a) "accommodation" means the provision of lodging in hotels and motels and in any other facilities required to be licensed under the Tourist Accommodations Act and in a building owned or operated by a post-secondary educational institution where the hotel, motel, facility or building consists of twenty or more

(i) rental units, or

(ii) rooms,

that are offered as lodging;

- (b) "Council" means the Council of the Municipality;
- (c) "levy" means the levy imposed pursuant to this Act;
- (d) "Municipality" means the Halifax Regional Municipality;
- (e) "operator" means a person who, in the normal course of the person's business, sells, offers to sell, provides or offers to provide accommodation in the Municipality;
- (f) "purchase price" means the price for which accommodation is purchased, including the price in money, the value of services rendered and other consideration accepted by the operator in return for the accommodation provided, but does not include the goods and services tax. *2001, c. 51, s. 2*.

Marketing levy

- 3 (1) The Council may impose a levy, to be known as a marketing levy, upon a person who, for a daily charge, fee or remuneration purchases accommodation in the Municipality.
- (2) The levy shall be at such rate as may be set by the Council but shall not be more than two per cent of the purchase price of the accommodation.
- (3) Subsections (1) and (2) do not apply to
- (a) a person who pays for accommodation for which the daily purchase price is not more than twenty dollars;
 - (b) a student who is accommodated in a building owned or operated by a post-secondary educational institution while the student is registered at and attending a post-secondary educational institution; or
 - (c) a person who is accommodated in a room for more than thirty consecutive days.
- (4) The levy collected pursuant to this Section shall be used by the Council to promote the Municipality as a tourist destination.
- (5) Without restricting the generality of subsection (4) and notwithstanding any other enactment, the Council may pay such portion of the levy collected by way of a grant as determined by the Council to any organization formed to promote the Municipality as a tourist destination, whether such organization is non-profit or otherwise.
- (6) An operator is deemed to be an agent of the Municipality for the purpose of collecting the levy and remitting it to the Municipality and as such shall collect the levy from the purchaser and remit it to the Municipality.
- (7) The levy, whether the price is stipulated to be payable in cash, on terms, by instalments or otherwise, shall be collected at the time of the purchase on the total amount of the purchase price and shall be remitted to the Municipality at the times and in the manner prescribed by by-law passed pursuant to subsection (8).
- (8) The Council may, in the manner prescribed by law, pass any by-laws that are necessary to implement a levy and, without limiting the generality of the foregoing, may pass a by-law to provide for

- (a) the levy not applying to the purchaser of accommodation based on the purchase price of the accommodation, the number of rental units or rooms for rent, the location of the facility or any other criteria prescribed by the Council;
 - (b) the forms and records to be maintained by the operator and the information to be recorded therein;
 - (c) the method of collection and remittance of the levy and any other conditions or requirements affecting collection and remittance;
 - (d) the rate of levy to be collected including, if so prescribed, a minimum and maximum levy;
 - (e) the method by which a purchase price may be attributed to accommodations that are sold as part of a combination of accommodations, meals and specialized goods or services;
 - (f) the inspection and audit of records maintained by the operator;
 - (g) interest and penalties for the failure to collect or remit the levy as required by the by-law;
 - (h) the times at which and the manner in which operators remit the levy to the Municipality.
- (9) A by-law made pursuant to subsection (8) shall include an exemption for persons, and their families, accommodated while receiving medical treatment at a hospital or provincial health-care centre or seeking specialist medical advice including, without restricting the generality of the foregoing, the manner of showing entitlement to the exemption. *2001, c. 51, s. 3.*

Proclamation

4 This Act comes into force on such day as the Governor in Council orders and declares by proclamation. *2001, c. 51, s. 4.*

Proclaimed - March 28, 2002
In force - April 1, 2002



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ATTACHMENT C

Funding Distribution Scenarios (includes DH Operating Grant of \$375,000 per year)	Destination Halifax	Special Events Reserve	Major Facilities Reserve	Totals by Year
1) Levy 2/3 Destination Halifax, 1/3 Events Reserve, Operating Grant to Facilities Reserve				
2006/07	\$1,803,483.46	\$901,741.73	\$375,000.00	\$3,080,225.19
2007/08	\$1,893,657.64	\$946,828.82	\$375,000.00	\$3,215,486.46
2008/09	\$1,987,992.72	\$993,996.36	\$375,000.00	\$6,295,711.65
2009/10	\$2,087,757.55	\$1,043,878.77	\$375,000.00	\$3,506,636.32
2010/11	\$2,192,145.42	\$1,096,072.71	\$375,000.00	\$3,663,218.14
Total	\$9,965,036.79	\$4,982,518.40	\$1,875,000.00	\$16,822,555.19
2) Levy 1/2 Destination Halifax, 1/4 Events Reserve, 1/4 Facilities Reserve, Includes Operating Grant to DH				
2006/07	\$1,727,612.60	\$676,306.30	\$676,306.30	\$3,080,225.19
2007/08	\$1,795,243.23	\$710,121.61	\$710,121.61	\$3,215,486.46
2008/09	\$1,865,994.54	\$745,497.27	\$745,497.27	\$6,295,711.65
2009/10	\$1,940,818.16	\$782,909.08	\$782,909.08	\$3,506,636.32
2010/11	\$2,019,109.07	\$822,054.53	\$822,054.53	\$3,663,218.14
Total	\$9,348,777.60	\$3,736,888.80	\$3,736,888.80	\$16,822,555.19
3) Levy 2/3 Destination Halifax, 1/6 Events Reserve, 1/6 Facilities Reserve, Includes Operating Grant to DH				
2006/07	\$2,178,483.46	\$450,870.87	\$450,870.87	\$3,080,225.19
2007/08	\$2,268,657.64	\$473,414.41	\$473,414.41	\$3,215,486.46
2008/09	\$2,362,992.72	\$496,998.18	\$496,998.18	\$6,295,711.65
2009/10	\$2,462,757.55	\$521,939.39	\$521,939.39	\$3,506,636.32
2010/11	\$2,567,145.42	\$548,036.36	\$548,036.36	\$3,663,218.14
Total	\$11,840,036.79	\$2,491,259.20	\$2,491,259.20	\$16,822,555.19
4) Levy 2/3 of 1.5% Destination Halifax, 1/3 of 1.5% Events Reserve, 1/3 split on additional .5% Includes Operating Grant to DH				
2006/07	\$1,953,048.03	\$901,741.73	\$225,435.43	\$3,080,225.19
2007/08	\$2,031,950.43	\$946,828.82	\$236,707.20	\$3,215,486.46
2008/09	\$2,114,493.63	\$993,996.36	\$248,499.09	\$6,295,711.65
2009/10	\$2,201,787.85	\$1,043,878.77	\$260,969.69	\$3,506,636.32
2010/11	\$2,293,127.25	\$1,096,072.71	\$274,018.18	\$3,663,218.14
Total	\$10,594,407.19	\$4,982,518.40	\$1,245,629.60	\$16,822,555.19

Marketing Levy Projections, based on 5% incremental increase per year

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
1.5% incremental	\$1,951,821.93	\$2,049,413.03	\$2,151,883.68	\$2,259,477.86	\$2,372,451.75	\$2,491,074.34
2% incremental	\$650,607.31	\$683,137.68	\$717,294.56	\$753,159.29	\$790,817.25	\$830,358.11
5% incremental	\$2,602,429.24	\$2,732,550.70	\$2,869,178.24	\$3,012,637.15	\$3,163,269.01	\$3,321,432.46

(note: 2005/06 incremental amount is based on 12 months, for calculation purposes only)

Destination Halifax Operating Grant

(assuming future level of \$375,000 for discussion purposes)

Total	\$383,000.00	\$375,000.00	\$375,000.00	\$375,000.00	\$375,000.00	\$375,000.00
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Year	Total 2%	Admin Fee	Marketing Levy Available for Distribution
2006/07	\$2,732,550.70	\$27,325.51	\$2,705,225.19
2007/08	\$2,869,178.24	\$28,691.78	\$2,840,486.46
2008/09	\$3,012,110.19	\$30,121.10	\$2,981,989.08
2009/10	\$3,163,269.01	\$31,632.69	\$3,131,636.32
2010/11	\$3,321,432.46	\$33,214.32	\$3,288,218.14
Total	\$15,098,540.60	\$150,985.41	\$14,947,555.19