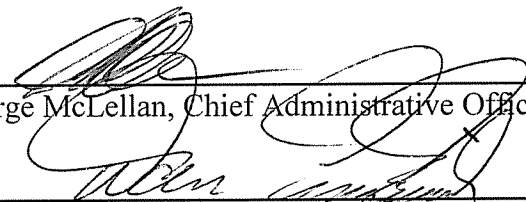
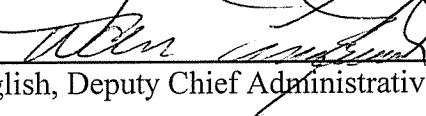


Halifax Regional Council
June 28, 2005

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY:


George McLellan, Chief Administrative Officer


Dan English, Deputy Chief Administrative Officer

DATE: June 21, 2005

SUBJECT: Marketing Levy Adjustment - Major Events Facilities Reserve

ORIGIN

This report relates to the following previous Council Reports and decisions:

- Item 11.4.6, Hotel Tax - Memorandum of Understanding (MOU), Halifax Regional Council Meeting, July 17, 2001;
- Item 13.1, Marketing Levy, Halifax Regional Council Meeting, March 26, 2002;
- 2005/2006 Budget Deliberations - Council approval of \$500,000 to establish a Reserve for the development of major cultural and public event facilities.

RECOMMENDATIONS

It is recommended that :

1. Council approve in principle an increase in the HRM Marketing Levy rate from 1.5% of the daily room rental fee to the maximum 2% rate;
2. Council direct staff to arrange for the introduction and necessary amendments to By-law H-400, the Marketing Levy Bylaw, (including the Public Hearing process) to implement the change in rate;
3. Council approve the establishment of a Major Events Facilities Reserve, funded in part by the 0.5% increase in the Marketing Levy, as per the terms outlined in the attached Reserve Business Case.

BACKGROUND

In 2001, in response to urging from the tourism industry, a hotel room tax or levy was established through Provincial legislation and Council approval. The Provincial legislation provided that the levy collected would be used by the Council to promote the Municipality as a tourist destination. The legislation provided for a maximum levy of 2% of the daily room rental fees on prescribed properties, the actual rate to be set by Council.

A Memorandum of Understanding (MOU) which outlined partnership principles with respect to collection and use of the funds generated by the levy was executed by the DCAO on behalf of HRM and the Hotel Association of Nova Scotia (HANS). On July 17, 2001 Regional Council authorized staff to develop a By-law and operating mechanism which reflected "the direction and principles" contained in the MOU. By-Law H-400 was adopted on February 12, 2002 to provide for implementation of the tax at the beginning of the 2002-2003 fiscal year. The marketing levy rate was set at 1.5% of the daily room rental fee and is now applicable to all hotel/motel tourism accommodation properties in HRM containing 20 or more rental rooms. Currently, all revenue collected through the levy by HRM is distributed 2/3 to Destination Halifax for tourism marketing purposes and 1/3 to the HRM Special Events Reserve.

The Destination Halifax share of the marketing levy revenue provides resources to strengthen HRM's identity in the face of ever increasing competition in order to maintain and increase tourism revenues. As per the MOU, Recreation, Tourism and Culture (RTC) maintains \$373,000 in its operating budget to support Destination Halifax. This amount represents the previously existing level of HRM tourism marketing resources and consists of three HRM staff who work for Destination Halifax. The amount of the levy transferred to Destination Halifax last year amounted to approximately 1.3 million dollars.

Based on the current levy, approximately \$650,000 is generated annually and transferred to the Special Events Reserve and any expenditures are governed by the Event Reserve guidelines approved by Council. It is staff's intention in this fiscal year to review the criteria and decision-making framework for the evaluation of requests from the Special Events Reserve. In addition, staff will be reviewing the criteria and process related to the Attractions and Events Grant, the Summerfest Grant and annual assistance provided to events from the RTC operating budget and will be providing a report and recommendation to Council with any changes.

DISCUSSION

Recently, HRM has been approached by Trade Centre Limited (TCL) to participate in the continuation of the feasibility process for the possible expansion of the Convention Centre and construction of a new entertainment complex. In addition, HRM has been approached at various times to participate in the construction of other new major facilities such as a replacement for the Metro Centre, a performing arts centre, and an outdoor stadium. As a result of these pending financial challenges, staff are recommending to increase the Marketing Levy and contribute the

additional revenue to a new reserve that will support the development of major cultural and public event facilities. A separate report will be brought to Council in the future regarding prioritization of these projects.

Council approved a contribution of \$500,000 in the 2005/06 operating budget to help establish this Reserve. During the Budget process, Council was advised that contributions to this Reserve may come from an increase in the Marketing Levy and that a Reserves Business Case would be forthcoming to Council for discussion and approval. The Reserves Business Case for the Major Facilities Reserve is attached to this report for Council's review and approval.

If approved by Council, the effective date of implementation to increase the levy rate will be determined upon consultation with those tourism properties throughout HRM which are subject to the levy. Careful consideration of the implementation date for the increase will be required because some properties regularly quote or commit prices for conventions, motorcoaches, or large groups 18 to 24 months in advance of their arrival. In accordance with the MOU, staff has written to the Hotel Association of Nova Scotia (HANS) and the Hotel Operators affected notifying them of the proposed increase in the current levy. In addition, the correspondence notes that the process of making changes to the Marketing Levy By-law includes provisions for a public hearing at which time they will be provided with the opportunity to make a submission to Council.

In discussions to date with HANS, their desire is to maintain the current allocation of one-third to the Special Events Reserve and two-thirds of the amount collected to Destination Halifax with extra funds being utilized for marketing purposes.

HANS also takes the position that because of the MOU, HRM does not have the authority to give less than 2/3 of the proceeds of the Levy to Destination Halifax for tourism marketing. In staff's opinion, the MOU does not restrict Council's legislative authority to determine the amount of the rate and the use to which the funds collected may be put as long as the funds are used to promote HRM as a tourist destination. In staff's opinion, the development of additional major facilities as outlined above meets that test.

Council has the legal responsibility and accountability to make all decisions related to any taxes it levies. In staff's opinion, Council, by contract, could not legally bind itself and future Councils to a future course of action which limited its legislative discretion. In fact, Council, in July 2001 in dealing with the MOU stopped short of actually ratifying the MOU which had been executed by the DCAO and instead merely directed staff to develop a by-law and operating mechanisms which reflected "the direction and principles" contained in the MOU. Therefore, in staff's opinion, Council has the legal right to implement the recommendations set out in this report.

BUDGET IMPLICATIONS

An initial deposit of \$500,000 will be made from Fiscal Services to the Major Events Facilities Reserve, as per the Council approved 2005-2006 operating budget. Approximately \$650,000 annually is the expected revenue from the 0.5% portion of the increased levy that will be allocated to the Major Facility Reserve.

MULTI-YEAR FINANCIAL IMPLICATIONS

This report complies with the Municipality's Multi-Year Financial Strategy, the approved Operating and Reserve Budgets, policies and approval of the Reserve Business Case is in keeping with the Multi-Year Financial Policy and advances its complete implementation.

ALTERNATIVES

Council has the option of maintaining the Marketing Levy at the current 1.5% rate and not approving the creation of the new Major Events Facilities Reserve

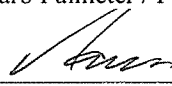
ATTACHMENTS

Reserve Business Case - Major Events Facilities Reserve
Major Events Facilities Reserve - Cash Flow Projection

Additional copies of this report, and information on its status, can be obtained by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

Report Prepared by: Paul Johnston / Business Services Coordinator, RTC, 490-5623
Margaret Soley/ Coordinator, DCAO Office, 490-4826

Report Reviewed by: Barb Palmeter / Financial Consultant, 490-7221

Report Approved by: 
Bob Nauss / Acting Director - Recreation, Tourism & Culture, 490-4910



S. Dale MacLenan, Director, Financial Services, 490-6308

Reserves Business Case

Halifax Regional Municipality • Corporate Services • Finance Division • 490-4446 • Fax: 490-4175

Date: June 28, 2005
Contact: Dan English, Deputy CAO

Major Events Facilities Reserve -

Purpose

To provide a funding source for the development of major cultural and public event facilities. This Reserve will be classified as an operating Reserve.

Source of Funds

MUNICIPAL:

- The initial deposit to the reserve will be the remaining \$420,000 which was approved as a withdrawal from Fiscal Services in the 05/06 Operating Budget. Although \$500,000 was budgeted, \$80,000 has been expended, consistent with the budget and the intent of the funds, directly from Fiscal Services, to accommodate a feasibility study relating to Major Facilities.

CORPORATE:

- The funds generated by 0.5% of the marketing levy rate (2% of each room sold at eligible properties) will be collected and transferred to the Reserve annually.

Interest will be paid to the Reserve in accordance with the HRM Reserve Policy.

Application of Funds

To provide a funding source for the development of major cultural and public event facilities. This would include facility specific work relating to research, feasibility studies, consulting, design and construction of Major Events Facilities. This Reserve may be used as a source of HRM's partnering, or leverage funds for larger projects.

Time Line

The Major Facilities Reserve is intended to be ongoing with annual review.

Approval Process

All requests for funds must be initiated by the Deputy Chief Administrative Officer. In accordance with the Reserves Policy, confirmation will be made by the Director of Financial Services as to compliance with the Reserve Business Case and availability of funds prior to going to Council for authorization.

Attachments

- Cash Flow Projection showing projection of annual contributions, withdrawals and balances is attached.

Approval

CAO

10.1.6

REVISED

Major Events Facilities Reserve -

Cash Flow Projection

	Account #	05/06	06/07	07/08	08/09	09/10	10/11
Opening Balance		0	1,094,075	1,816,548	2,590,169	3,417,835	4,302,592
Transfers from Operating	8031	420,000 ^					
Transfers from Operating	8031	650,000 ^^	682,500	716,625	752,456	790,079	829,583
Transfers to Operating **	8030						
Interest *	4850	24,075	39,973	56,996	75,209	94,678	115,474
Closing Balance		1,094,075	1,816,548	2,590,169	3,417,835	4,302,592	5,247,649

^ Initial deposit from Fiscal Services

^^ \$650,000 reflects collections for a 12 month period - This amount will be prorated based on when the reserve is operationalized

* Interest rate assumed to be 2.25%

**Transfers to operating will vary depending on projects, studies, etc approved by Council