

Stable Formula Funding For Tourism Industry Destination Marketing Organizations (2015)

British Columbia's vibrant tourism industry has proven its potential to secure a growing share of the global tourism market. But in order to make good on the promise of the industry, Destination BC and its network of regional and community-based organizations must continue to generate demand through competitive marketing. They can best achieve industry growth by operating in an environment of predictable and performance-based funding.

The tourism industry is a critically significant player in the provincial economy, with a proven capacity to grow. In 2011, with the release of *Canada Starts Here: the BC Jobs Plan*, the provincial government identified tourism as one of the eight British Columbian industries with unique competitive advantages. According to BC Stats, in 2013 tourism generated \$13.9 billion in revenue, contributed \$7.3 billion in Gross Domestic Product, and employed over 132,000 people.

Tourism is an industry that weathers external shocks and capitalizes on positive stimulus, adding value, revenue, and jobs to the province. In 2009, the global economic recession and the appreciation of the Canadian dollar caused a sharp decline in tourism revenue. However, that trajectory was then sharply reversed in 2010 with the Olympic and Paralympic Winter Games and the implementation of the Approved Destination Status for Canada in China. Overall, the trend has been towards robust growth. According to BC Stats, between 2002 and 2012 total tourism revenues grew by 40.5%. From 2012 to 2013, revenues increased by 3.6%, marking a 44% increase from 2002.

Destination BC, as the current iteration of the province's tourism marketing crown corporation, has a strong mandate to generate demand for its industry. As per Premier Christy Clark's specific tourism strategy, *Gaining the Edge, a Five-year Strategy for Tourism in British Columbia 2012-2016*, Destination BC was launched in 2013 to provide innovative and industry-led leadership while remaining accountable to tax-payers. According to its *2015/16- 2017/18 Service Plan*, Destination BC's corporate strategy is based on three pillars: creating a 'magnetic brand', fostering 'remarkable experiences', and enabling a 'powerful marketing network'. These pillars are expressed through specific initiatives and performance measures that give Destination BC and its tourism industry partners a clear strategy for capturing a greater portion of the global tourism market while operating in accordance with the government's *Taxpayer Accountability Principles*.

Although the current mandate and strategy of Destination BC indicates a positive way forward for the industry, the corporation has been launched amidst a backdrop of great uncertainty for tourism marketing organizations in British Columbia. The regional and community destination marketing organizations (DMOs) that comprise Destination BC's marketing network depend upon predictability and multi-year agreements in order to manage their supply chains, develop products, and set prices. Changes in the funding environment in the

past half-decade have made the planning and execution of competitive marketing initiatives truly challenging for these DMOs

Formerly, a percentage of the Hotel Room Tax (HRT) provided a stable and dedicated stream of funding for DMOs. But after the instatement of the short-lived Harmonized Sales Tax, which temporarily eliminated the HRT, the provincial government began simply providing transfers to Destination BC, promising to eventually implement a new formula funding model that would provide a percentage of the provincial sales tax to the tourism industry. In fact, during the 2012 rollout of Destination BC, the government declared in a November 3rd press release that following the corporation's first year of operation, its funding would be set based on a percentage of annual sales tax activity and enshrined in legislation. Years later, the province's DMOs are still waiting for this funding model to be unveiled. The *2015/16- 2017/18 Service Plan* reiterates the government's intent to provide Destination BC with formula funding linked to a proportion of tourism-related provincial sales tax (PST) revenues. Claiming that this funding model is 'currently being developed', the *Service Plan* makes no mention of protection of this performance-based formula through legislation, nor does it provide a timeline for its implementation.

Although BC tourism has proven its hardiness and potential for growth, it is prudent to recognize the challenges it now faces as a player in a rapidly evolving global market. 25 years ago, only 10 countries were contending for tourism dollars. Currently, 200 countries are working to attract international visitors and capture market share. Given the challenges inherent to operating in an increasingly competitive global market, and the need for a stable funding environment that can nurture effective long-range marketing strategies, legislation-protected formula funding for DMOs is now more important than ever.

Currently, tourism marketing professionals are operating in a regime of uncertainty, where transfer amounts are not guaranteed and may conceivably be eroded by requests from other competitors for provincial funding. Not only that, but the *2015/16- 2017/18 Service Plan* projects government transfers of \$50,974 million each year until 2017/18, despite the fact that it also forecasts growth of tourism industry related revenue. This is not in keeping with the performance-based principles at the heart of the new Destination BC model. Destination BC and its strong network of DMOs are working hard to capitalize on the promise of one of the province's eight key industries. The global tourism market is inherently unpredictable and increasingly competitive, so where the provincial government can provide stability and the conditions for success, it should act swiftly.

THE CHAMBER RECOMMENDS:

That the Provincial Government:

1. Create a formula funding model that links transfers to Destination BC with a proportion of provincial sales tax revenues collected from tourism activities;

2. ensure this formula is performance-based, in keeping with the *Taxpayer Accountability Principles*;

3. protect this performance-based formula funding through legislation.