Cape Breton Island Marketing Levy

Status and Proposed Amendment

Introduction

Accommodation levies are used all over the world as an effective means of generating funds to be utilized for destination marketing. In Nova Scotia, the Halifax Regional Marketing Levy Act was the first to be introduced in 2001.

The Cape Breton Island Marketing Levy Act was initially introduced in the Nova Scotia Legislature in 2005, but did not pass into law in 2011. The act states that a rate of not more than 2% of the purchase price is to be charged on fixed-roof accommodation stays at properties with 10 or more rooms. Longer-term stays (30 days or more), medical stays and students in dorms are exempt from the levy. The act states that funds generated through the levy must be used to promote Cape Breton Island as a tourism destination.

Subsequent to the passing of the act, each of the five municipalities on the Island instituted municipal bylaws to govern how the levy would be collected in their respective jurisdictions. These bylaws, which are very similar to each other, state that applicable accommodation operators must charge the levy to their guests and remit the levy funds to their municipality. At the same time, a memorandum of understanding (MOU) was established among all five municipalities that designated Destination Cape Breton as the official agency to promote the Island. As such, the municipalities provide all funds they receive from accommodation operators to Destination Cape Breton to be used explicitly for destination marketing.

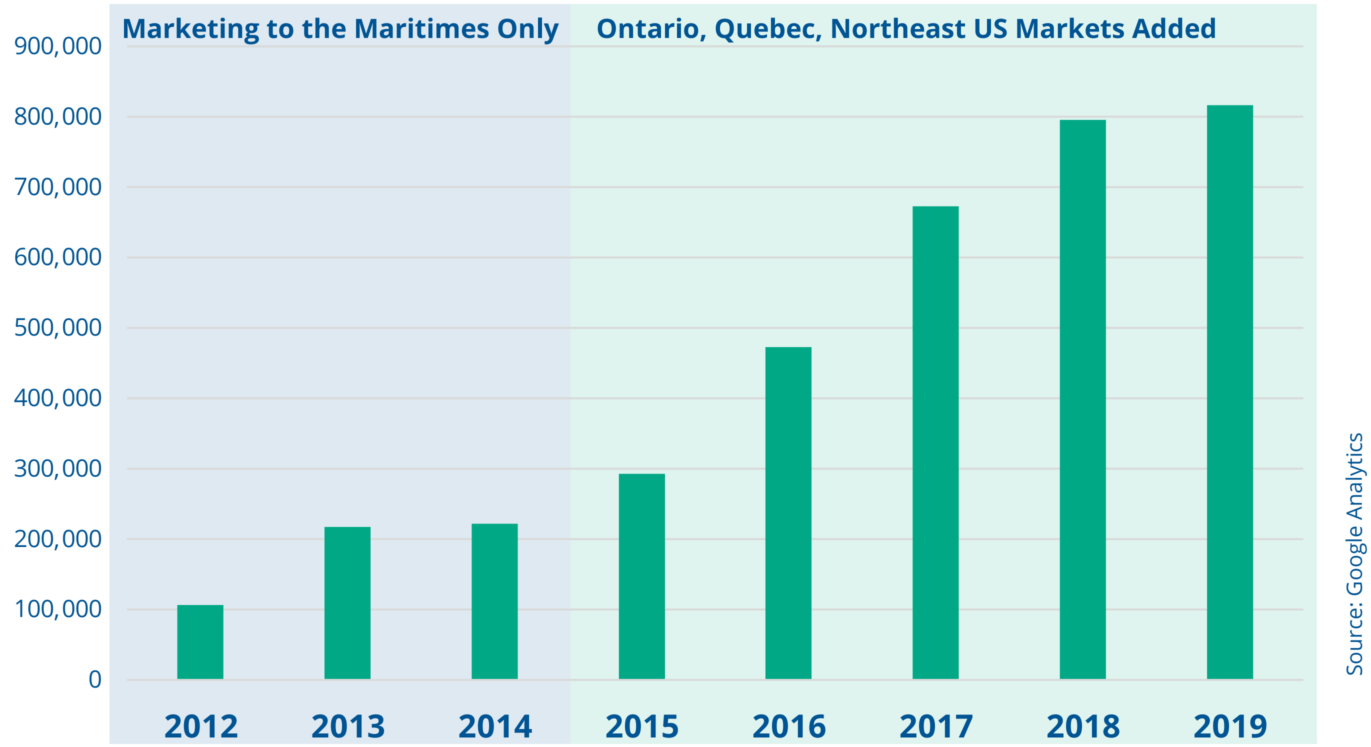
This report will provide details on the impact of destination marketing that has been implemented since the levy was introduced in 2012, the current reduction of funds that are available for destination marketing and a proposed amendment to the Cape Breton Island Marketing Levy Act to address the current situation.

Destination Marketing Results

Since the first year of the implementation of the Cape Breton Island Marketing Levy in 2012, the funds have been invested in marketing the destination to prospective visitors. The vast majority of this marketing is designed to drive traffic to the visitcapebreton.com website where visitors may learn about reasons to visit, things to do, places to stay, festivals and events, etc. The chart below shows the growth in traffic to the website from 2012 up to 2019, the last full year before the pandemic.

visitcapebreton.com Website Sessions 2012-19

In the first three years of destination marketing, indicated in blue shading, a modest initial budget necessitated a focus on the regional market only. Comparatively, there were modest increases in website visitation. However, as the budget increased, a decision was made to start marketing in Ontario and Quebec in 2015 and the Northeast US in 2016. With this market expansion, indicated in green shading, there was a strong growth in website traffic.



Although funds from the levy were down significantly during the pandemic, other pandemic support funding allowed strong traffic to continue to be generated and the growth trend continued. In 2022, with pandemic recovery well underway, traffic to the website is at record levels at over 1.1 million sessions to date (September 9).

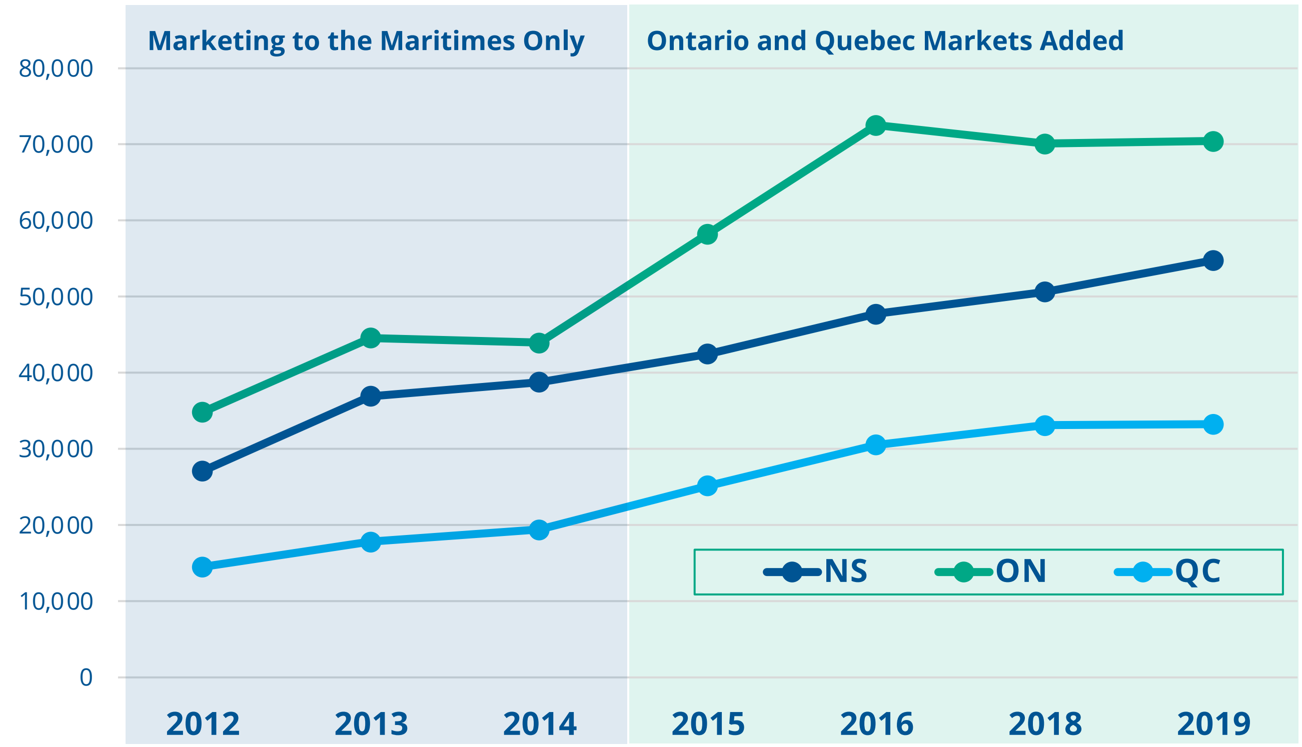
Note: Traffic generated by the "Trump Bump" in 2016 has been removed from the chart, as that traffic is cannot be attributed to the marketing levy.

In terms of conversion of interest in the destination to visits, there are two main metrics that may be utilized – visitation to the Cape Breton Highlands National Park and room nights sold on Cape Breton Island. Given that the Cabot Trail is the top motivator of travel to the Island and most visitors travelling the Trail will purchase admissions to the National Park, this is a strong indicator of overall visitation to the destination. The chart below tracks admissions from the implementation of the levy in 2012 up to 2019, the last full year before the pandemic, for the top three markets for promotion of the destination: Ontario, Nova Scotia and Quebec.

In the first three years of destination marketing, indicated in blue shading, there was a modest increase in visitation to the National Park by Nova Scotians. However, when marketing to Ontario and Quebec was added in 2015, visitation to all three markets began to climb steadily.

In total, visitation to the National Park from these three markets was approximately double where it had been in 2012, indicating strong incremental growth.

Visitation to Cape Breton Highlands National Park

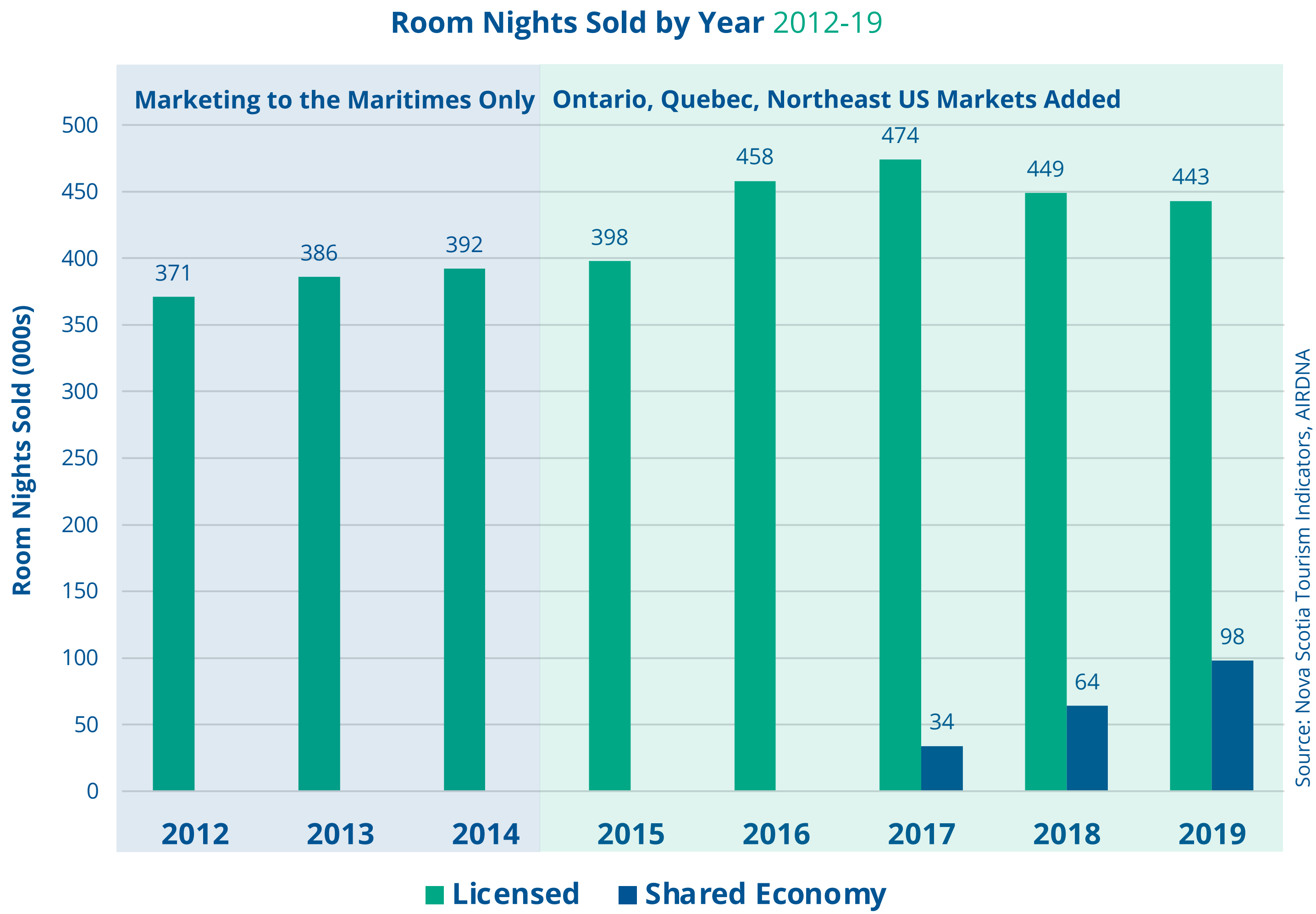


Source: Parks Canada

It should be noted that in 2017 there was free admission to the National Park. As a result, this year has been removed from the chart as that visitation cannot be attributed to the marketing levy and skews the trend.

The second metric that we use to measure conversion of interest in the destination to visits is room nights sold on Cape Breton Island, as collected and reported by Tourism Nova Scotia. The chart below tracks licensed room nights sold from the implementation of the levy in 2012 up to 2019, the last full year before the pandemic, in the green bars. Additionally, we have added data on shared economy (short-term rentals) unit nights sold which is comprised mainly of Airbnb units along with some VRBO units.

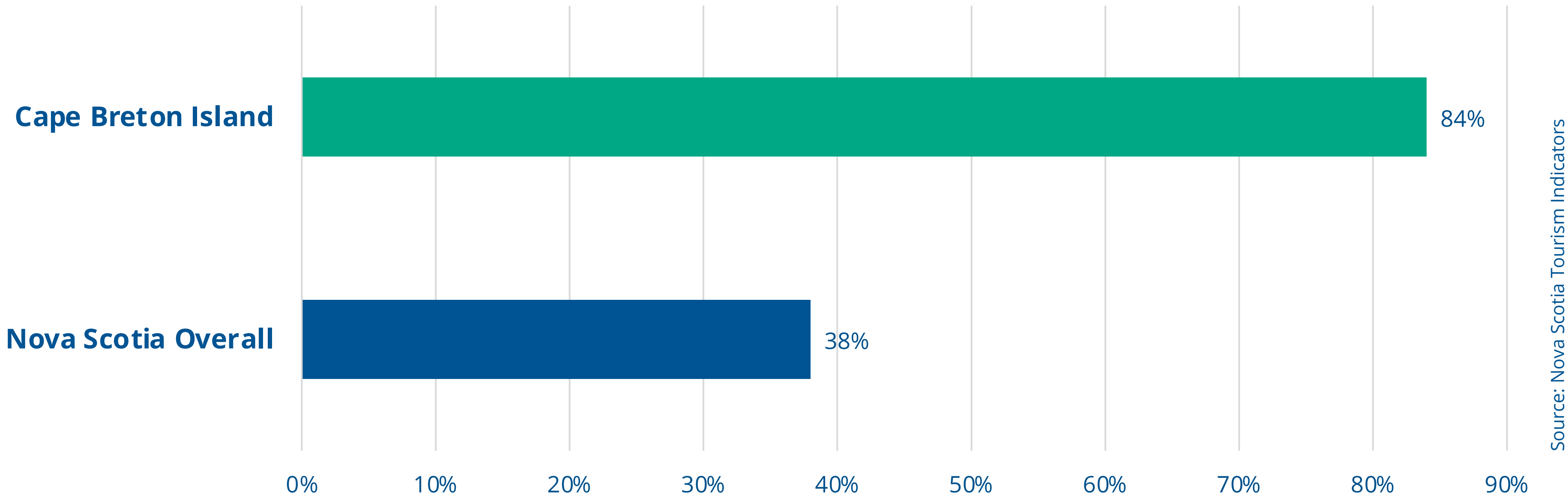
In the first three years of destination marketing, indicated in blue shading, there were modest increases in licensed room nights sold. When marketing to Ontario and Quebec was added in 2015 and the Northeast US in 2016, licensed room nights sold increased steadily up to 2017.



While licensed room nights sold decreased in 2018 and 2019, there were significant increases in shared economy unit nights sold, as indicated in the dark blue bars. While a small percentage of these units are included in the licensed room nights sold, removing the duplication and combining the licensed and shared economy nights sold would show that the growth trend actually continued in 2018 and 2019.

Cape Breton Island also benefits from the provincial destination marketing that is conducted by Tourism Nova Scotia. In fact, Destination Cape Breton partners with Tourism Nova Scotia on a portion of its marketing program, which allows the marketing levy funds to be leveraged. That said, the two regions that showed the strongest comparative growth over the 2012 to 2019 period were the two with the largest marketing levy revenues in place – Cape Breton Island and Halifax. The chart below shows the relative growth in room nights sold in Cape Breton compared to the province as a whole.

Growth of Incremental Room Nights Sold
from 2012-2019 using 2011 as a Baseline



As indicated in the chart, incremental room nights sold on Cape Breton Island over and above the 2011 baseline (the last year before the marketing levy was implemented) grew at a rate that was more than double the province overall. This is a clear indicator that much of the growth over that period can be directly attributed to having dedicated destination marketing funds as a result of the levy.

Additionally, using data from the Nova Scotia Visitor Exit Survey, it has been estimated that the marketing levy generates $27 in tourism spending for every dollar collected. The marketing levy funding has been driving results.

The Current Situation

Despite the strong growth in the Cape Breton Island visitor economy over the past decade, two factors are currently having a negative impact on destination marketing funds for the Island. These factors are explained below.

At the time the marketing levy was established, Enterprise Cape Breton Corporation (ECBC) formed an agreement with Destination Cape Breton to match the levy funds to support administrative costs and supplement the marketing budget. As levy revenues grew, this amount was capped at $640,000 per year. When ECBC was closed by the federal government, this contribution continued under the Atlantic Canada Opportunities Agency (ACOA) until recent years when they advised that the funding would be reduced, as no other destination in Atlantic Canada receives this level of support. The funding has been reduced by $100,000 per year and is currently at $440,000 for the 2022-23 fiscal year. ACOA has advised that it will be further reduced to $300,000 per year.

The second factor is the rise in market share among short-term rentals, including Airbnb and VRBO properties. In 2017, short-term rentals had an estimated market share of about 7% of licensed room nights sold. In 2021, the market share had increased to 30%. Very few of these properties are required to collect the levy and, as a result, this is reducing the funds available to promote the destination.

These two factors, in addition to the pandemic, have reduced the destination marketing budget significantly. Next year, the marketing budget is projected to be about 20% lower than it was in 2018.

Mitigation Efforts

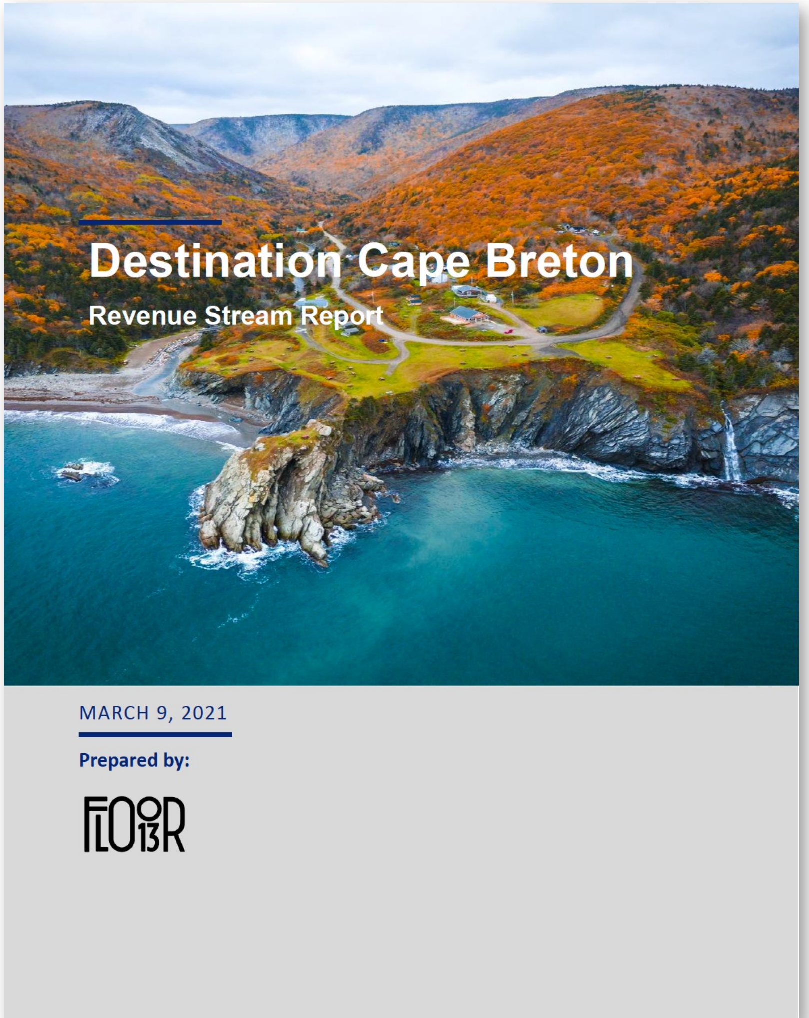
When advised by ACOA that their funding would be reduced over the next few years, Destination Cape Breton took steps to mitigate the impact of these cuts, as follows:

- When the lease was up on the office the organization had been renting, it moved into the former visitor information centre building on Keltic Drive to save on rent costs.
- Staffing was reduced from eleven full-time positions in 2019 to nine full-time positions currently.
- Steps were taken to achieve organizational efficiencies wherever possible, including moving to a cloud-based server platform and employing a collaborative project management platform to increase productivity.
- The marketing program was continually tweaked and honed to continue to deliver strong results despite the shrinking budget.

These steps lessened the impact of reduced funds, but with $140,000 per year still to be cut in ACOA funding and the continued growing market share of Airbnb and VRBO, further cuts will be required. The only place left to cut will be in the destination marketing budget, which could impact the recovery of the industry.

The Cape Breton Island Marketing Levy helped us climb to new heights as a destination…but with significant cuts coming to the marketing budget, we're headed for a cliff.

Addressing the Issue



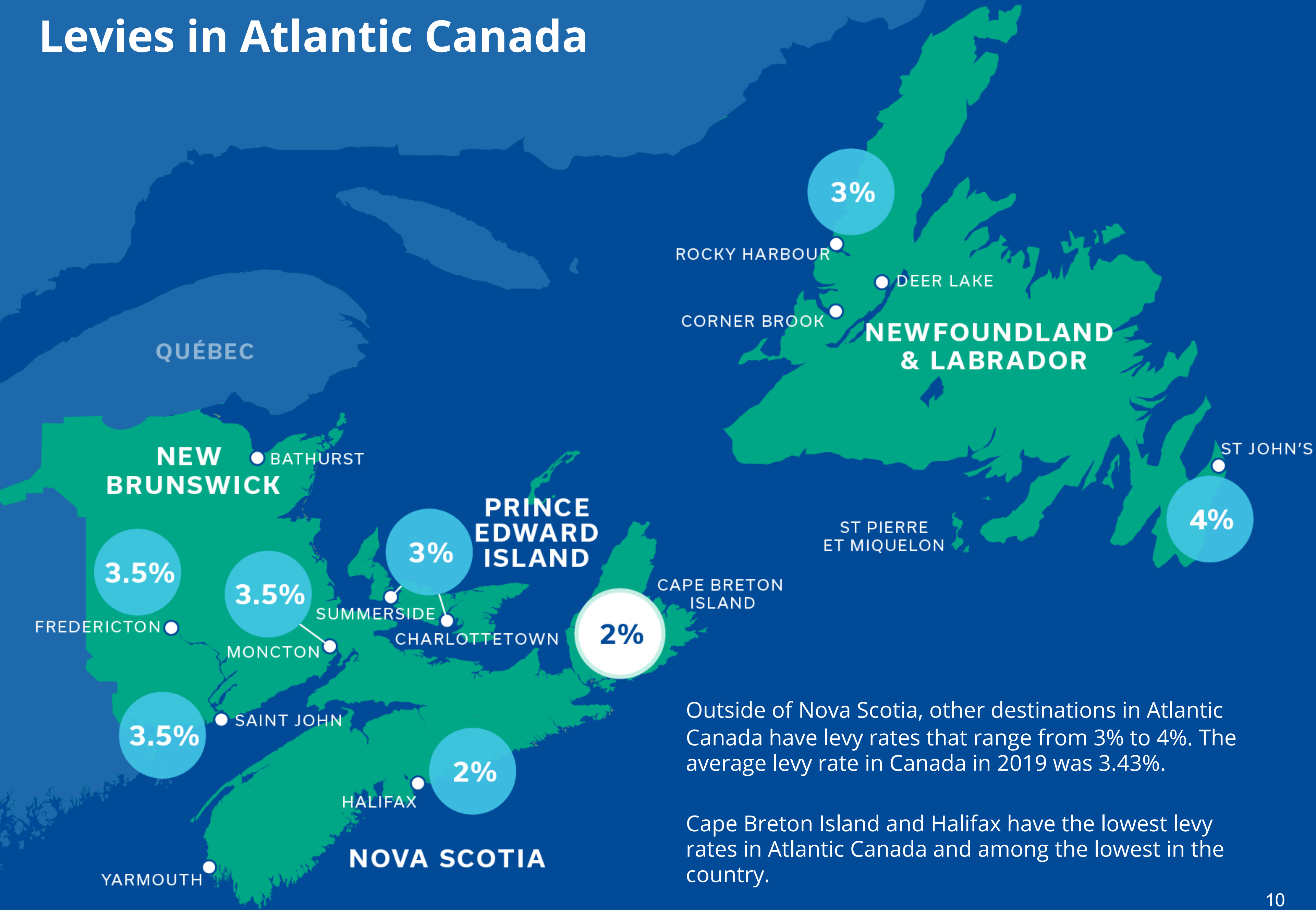
In 2021, Destination Cape Breton contracted the tourism consultancy firm, Floor 13, to conduct a revenue stream analysis for the organization. This report reviewed the revenues streams of Destination Cape Breton and compared them to other destination organizations across the country to identify options to address the revenue challenges.

The consultants recommended increasing the marketing levy rate. In their recommendation, they stated:

"Even without the current income stream challenge faced by Destination Cape Breton, there is a multitude of benchmark evidence to suggest that **the current 2% levy places the region at a competitive disadvantage** to many of its competitor destinations."

This is further explained by the map on the next page.

Levies in Atlantic Canada



Outside of Nova Scotia, other destinations in Atlantic Canada have levy rates that range from 3% to 4%. The average levy rate in Canada in 2019 was 3.43%.

Cape Breton Island and Halifax have the lowest levy rates in Atlantic Canada and among the lowest in the country.

Accommodation Operator Discussions

In the Spring of 2022, Destination Cape Breton conducted a series of in-person and Zoom meetings with accommodation operators around the Island to discuss the current challenge with destination marketing funds. Three options were presented, as follows:

1. **Increase the Marketing Levy Rate to 3%**
   This rate would remove the competitive disadvantage compared to other destinations in Atlantic Canada. Halifax is also taking steps to move to this rate, so it would be consistent with them. It is estimated that this would add $450,000 annually to the destination marketing budget, thus replacing the amount no longer provided by ACOA, but it does not take into account the increasing market share of Airbnb and VRBO properties.

2. **Remove the 10 Rooms Threshold to Apply the Levy to All Fixed-roof Accommodations**
   This addresses an issue of fairness, as there are many communities on the Island where one operator charges the levy and another in close proximity does not, despite all receiving the benefits of destination marketing. It is estimated that this option would add $250,000 to $350,000 annually to the destination marketing budget, thus replacing the amount no longer provided by ACOA, but it does not address the competitive disadvantage with other destinations who charge higher rates.

3. **A Combination of Options 1 and 2**
   This option would add $700,000 to $800,000 annually to the destination marketing budget, thus replacing the amount no longer provided by ACOA and addressing all competitive concerns.

Proposed Use of Additional Funds

In addition to the three options, accommodation operators were presented with proposed uses of the additional funds by Destination Cape Breton. The first two uses below were presented by Destination Cape Breton and the third is based on feedback from the accommodation operators:

1. **Replenish the Destination Marketing Budget**
   Restoring the destination marketing budget back to its 2018 level is the first priority. This will ensure that a strong destination marketing program will continue to drive business to tourism operators.

2. **Developing a "365 Fund"**
   This fund will be used for initiatives that build the shoulder and winter seasons, such as the creation new events or special promotions to address soft periods during the year.

3. **Provide Resources to Critical Industry Issues (e.g. Workforce Shortage)**
   Driving increased business to the destination only makes sense if operators have the capacity to handle the growth. The current workforce shortage is at crisis levels for many operators and additional levy revenues may be directed to providing concrete solutions. In future years, there may be other critical issues that demand resources.

Accommodation Operator Feedback

The vast majority of accommodation operators who participated in the consultation sessions shared a number of common views, as follows:

- **Increase the levy rate to 3%, but ALL fixed-roof accommodations should collect, including Airbnb and VRBO units.**
- **Look at January 1, 2024 as the start date** – the industry needs to recover and some operators have already quoted 2023 rates to groups.
- **Use some of the additional funds to address critical issues,** like the current workforce shortage.
- **Enforcement will be important** and should be built into the process.
- **Ways to simplify and/or streamline the remittance process should be explored** to facilitate ease of administration for smaller operators.
- **Provide operators with an info sheet on the marketing levy** to give to budget-conscious guests who ask questions about it. (Note: most operators stated that they very rarely get any questions from guests, as they are accustomed to paying marketing levies almost everywhere they travel.)

While there were some other individual comments made in the sessions, these views above reflected the vast majority of the accommodation operators consulted.

Recommendations

Based on the feedback from operators and other supporting evidence, Destination Cape Breton is proposing the following recommendations:

1. **Request an amendment to the Cape Breton Island Marketing Levy Act** to:
   - Allow the five Island municipalities to set the marketing levy rate at 3%.
   - Remove the 10 rooms or more threshold, so that all fixed-roof accommodations must collect the levy (including Airbnb and VRBO units).
   - Use the definition of fixed-roof accommodation that is used in the Tourist Accommodations Registration Act for consistency.
   - Amend the usage of the funds to destination marketing AND destination management, so that they can be used for other critical tourism issues and shoulder/winter season development.
   - Set January 1, 2024 as the start date for the changes to take effect.

2. **Consult with tourism operators, municipalities and other industry partners annually to determine the best use of additional funds generated by the levy**, beyond the replenishment of the marketing budget.

3. **Work with the five Island municipalities to develop a levy management system** that simplifies and streamlines the reporting and remittance process for operators, automates reminders for operators and provides comprehensive records for municipalities.

4. **Develop an info sheet and an associated web page on the marketing levy** to provide to guests who ask questions about it.

Have Your Say

If you are an accommodation operator, but weren't able to attend a consultation session or weren't aware of them, we still want to hear from you. Provide your feedback on the proposed direction at: destinationcapebreton.com/marketing-levy **by October 21, 2022.**