

Surprise announcement of Harmonized Sales Tax a \$100 million cash grab from tourists. Cost of accommodation can jump by 6% in DMF areas.

Greetings:

Your Ontario Accommodation Association (OAA) deplores the fact that the Harmonized Sales Tax announced in the March 26, 2009, Ontario Budget was a deal struck between the federal and provincial governments behind closed doors, without the benefit of extensive public consultation first.

The Harmonized Sales Tax (HST) will severely and negatively impact our tourism industry. The current 5% PST on rooms will jump to 8%, netting the government a windfall of between \$100 and \$125 million, on the backs of our tourists, just as we climb out of the worst recession in decades next July, 2010, when the HST takes effect. Accommodation throughout Ontario will become 3% more expensive next summer. In areas with an existing 3% "voluntary" Destination Marketing Fee (DMF), the cost of accommodation could jump by 6%, since these areas will likely maintain their fee on top of the HST. What a wonderful way to encourage tourism!

Moreover, the government wants to keep \$60 million of that \$100 million windfall, granting a paltry \$40 million to our industry's 11 new tourism regions (which we did not ask for, nor do we want) to market Ontario.

Tourism Minister Monique Smith has said the \$40 million is meant to replace the existing "voluntary" Destination Marketing Fees (DMF), but it will actually fall far short, as Toronto generates \$26 million alone, Ottawa a further \$12 million, and \$1 million each in Kingston, Sault Ste Marie, Stratford, etc. And this \$40 million is also supposed to fund the areas currently without DMFs, like London, Peterborough, etc. This is why areas with an existing DMF will likely decide to maintain it, adding it to the HST next July, causing travellers to dig deeper into their pockets.

So in an era when our industry is hard hit, when we need more marketing dollars, not less, this government wants to cut our existing marketing funds. And it imposes government control: they dole out the \$40 million. And how much of the \$40 million will go to administration of these unwieldy Destination Marketing and Management Organization (DMMO) regions?

Splitting Ontario into 11 tourism regions was a recommendation in Greg Sorbara's "Discovering Ontario: A Report on the Future of Tourism." released in February, 2009 ([www.tourismstudy.ca](http://www.tourismstudy.ca)). However, the 11 DMMO regions were not requested by our industry; this came from a BC model that Mr. Sorbara likes. The large regions as proposed are unworkable: for example, Sault Ste. Marie has nothing in common with Kenora, yet both are lumped into the same huge northern region. Other examples abound across Ontario.

The HST will also increase the price of gasoline – another blow to Ontario tourism:

car touring. It will increase the tax paid on advertising, and the price of admissions to attractions.

The government claims the HST will save businesses over \$500 million a year in paperwork costs and reduce the tax burden on business investment by providing input tax credits.

The Budget makes no mention of relief concerning our industry's biggest challenge/obstacle: access to capital. There is also no direct investment in our industry, beyond a \$41 million revitalization of three provincial parks. Minimum wages will go up yet again in 2010.

On the plus side, the Budget contains \$4.5 billion in tax relief over three years for small businesses, which are the backbone of tourism. Over the next two years, the government will invest \$32.5 billion in infrastructure, including some benefitting tourism. There is \$273 million for roads and bridges in Northern and rural Ontario, and \$219 million for new highway projects in Southern Ontario. For small businesses, the Corporate Income Tax rate will be lowered from 5.5% to 4.5% on July 1, 2010. Funding for summer jobs increases by 57% (\$32 million) to nearly \$90 million in 2009. Ditto for 2010.

The series of Ministry of Tourism "industry consultations" that will happen across Ontario between April 29 and May 20 with locomotive speed, are not to discuss whether our industry even wants the 11 DMMOs, but rather how they may best be implemented and why they will be so wonderful for us.

I have read the Request for Proposal (RFS/SOW document) for the consultants for these sessions. It is all about getting industry buy-in, not whether we even want these DMMOs. It is very clear Minister Smith wants to implement these DMMOs, and quickly, so they may be ready by July 2010, to receive their HST funding.

The Tourism Industry Association of Ontario (TIAO) and its member associations, including your OAA, are fighting these ill-conceived plans as much as we can. However, the HST is a done deal: a secret arrangement inked months ago between Premier McGuinty and the federal government, in return for increased transfer payments to Ontario for health care, etc. The Premier kept the HST deal secret even from his own Liberal caucus until the last minute. (Just over a year ago, Finance Minister Dwight Duncan assured our industry that an HST "would not happen".)

The 11 DMMO regions are also a done deal. Our industry can only modify the boundaries and, perhaps, establish smaller "sub-regions" inside the larger main regions for more effective marketing purposes.

The \$40 million in funding from the HST appears to be negotiable. The Ministry of Finance has recognized they severely mis-calculated. TIAO's position is that our industry needs the entire \$100-\$125 million that the HST will generate, for the DMMOs.

However, TIAO has also concluded that there is nothing legally stopping a destination from continuing, or introducing, a "voluntary" DMF. TIAO is not promoting this approach. It is strictly up to the destination to decide if adding a DMF on top of the HST is advisable, or not. Those areas that start, or continue, their DMF, will make Ontario one of the more expensive destinations, thanks to the 6% jump in the combined HST/DMF. Existing DMF areas will likely not give up the marketing millions they already rake in. This is the mess the Budget has created in our industry, with its HST.

**ACTION ALERT:** Contact your MPP to protest the Budget. Make sure you attend the industry consultation session near you between April 29 and May 20, 2009, to voice your concerns. The government must hear from tourism operators - a grassroots outcry is needed! Otherwise, these plans will be inflicted upon us. If you are silent, government will see it as your agreement with these plans!

Best,

Bruce Gravel  
April 15, 2009