

Discover Saskatoon Contract

ISSUE

The City of Saskatoon (City) contracts Discover Saskatoon (formally known as Tourism Saskatoon) for a variety of destination management services. The current contract expires on December 31, 2022 and a new contract is required to continue this service.

BACKGROUND

History

The City currently contracts with Discover Saskatoon to provide destination management services for the City. As outlined in the current contract (Appendix 1), the current provision of services include the:

1. operation of at least one Visitor Information Centre year round;
2. provision of a comprehensive visitor information program to visitors of facilities, attractions and events in the city;
3. undertaking of initiatives such as advertising in publications to attract visitors from various markets;
4. conducting of site visits for the purpose of familiarizing travel influencers with the city and its facilities;
5. attraction to the city of special events that will utilize the City's facilities such as TCU Place, sport facilities, SaskTel Centre and other local meeting facilities through participating in the preparation of bid proposals and other initiatives such as site inspections; and
6. attraction and servicing of conventions and events that will utilize the City's facilities and other local facilities.

The fees for these services as set out in the contract were set at \$532,900 in 2018 and increased by the sum equal to the previous years' fee for service adjusted by a percentage equal to the incremental growth in taxable assessment for commercial and industrial property in Saskatoon in the previous year.

As approved in the 2022 budget, the current funding is \$551,700 and is set to increase to \$556,700 in 2023, which is an increase of \$5,000 or 0.9%.

In addition, the City currently provides a \$7,500 annual operating grant to Saskatoon Sport Tourism. Discover Saskatoon has notified the City that they have dissolved Saskatoon Sports Tourism and are establishing a new Saskatoon Sport and Major Event Advisory Committee (Advisory Committee) with a similar mandate. As presented in an information report to the September 12, 2022 SPC on Planning, Development & Community Services, the Administration's intent is to provide this grant to Discover Saskatoon to support the newly formed Advisory Committee.

This would bring the preliminary approved contribution to Discover Saskatoon in 2022 to \$564,200. Further increase to the budgeted contribution would require an addition to the property tax supported budget.

Approaches in Other Jurisdictions

Comparisons to other jurisdictions for Tourism agencies are difficult to make for several reasons, including:

- varying structures and mandates. For example, economic development agencies are often combined with tourism agencies;
- service level differences across the various organizations based on the needs of their community;
- differing levels of provincial funding;
- legislative differences such as Accommodation Taxes that can be mandated and used to fund a larger portion of tourism work as opposed to the voluntary program in Saskatoon/Saskatchewan; and
- impacts because of the Covid Pandemic which has seen significant changes to funding to tourism agencies through reduced hotel contributions and in many cases one time funding from municipalities and/or other levels of government.

Although a direct comparison is difficult to make, an overview of comparable municipalities tourism models and municipal funding can be seen below:

Regina

Economic Development Regina (EDR) provides both economic development services as well as tourism services. As per the EDR's 2021 Annual Report, \$1,848,240 was received from the City of Regina for core funding. In comparison, the City provided SREDA and Discover Saskatoon \$1,010,400 (including the potential \$125,000 bonus payment) and \$546,600 respectively for a total of \$1,557,000 in 2021. From a purely per capita perspective, the City is providing a combined \$5.70/capita to SREDA and Discover Saskatoon while Regina is providing \$8.07/capita in 2021 for core operations. However, it is important to re-iterate the difficulty in a direct comparison, for example the City provided an additional \$2,605,300 in budgeted economic incentives in 2021 as part of our Economic Development initiatives package outside of the direct funding to SREDA. Information regarding the City of Regina's economic incentive program could not be found within their budget documents.

Calgary

Tourism Calgary is the official destination marketing and development organization for Calgary's tourism industry. For more than 60 years, the organization's primary purpose has been to promote Calgary and area as the destination of choice for leisure travellers. Tourism Calgary's work focuses on:

- marketing Calgary in new and exciting ways;
- advocating for what's best for the quality of life of Calgarians and for Calgary's growing tourism industry;

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- hosting visitors, and events that build Calgary’s brand and offer shareable experiences; and
- activating experiences in ways that attract, connect and inspire.

As per the 2020 audited financial statements, Tourism Calgary received \$2,777,001 or \$2.08/capita in core operating funding as well as \$966,000 for their special event fund.

Edmonton

Explore Edmonton is a destination marketing organization and is involved in promoting Edmonton Tourism as well as operating two of the City’s event facilities, the Edmonton Convention Centre and Edmonton Expo Centre. The organization was formerly known as the Edmonton Economic Development Corporation and additionally acted as an economic development agency for the City. In 2019, Edmonton’s City Council voted in favour of splitting its economic development activities into a new innovation authority known as Innovate Edmonton.

As per Explore Edmonton’s 2021 Annual Report, the City of Edmonton provided a total of \$21,846,157 to the organization for a variety of services as well as operating funding for the Convention Centre and EXPO Centre. Overall funding for Destination Development and Marketing was \$3,158,469 or \$3.22/capita. A full summary of the City of Edmonton’s contributions to Explore Edmonton can be seen below:

DIVISIONAL RESULTS	Edmonton Convention Centre	EXPO Centre	Destination Development & Marketing	Business Development	Community & Signature Events	Edmonton Research Park	Shared Services	Start Up Edmonton	2021 Total
City of Edmonton	3,667,412	2,067,417	3,158,469	2,307,264	1,461,023	404,461	8,780,111	-	21,846,157

Winnipeg

Tourism Winnipeg is the city’s official destination marketing organization and leads all efforts to attract visitors, group tours, special events, sports, meetings and conventions to Winnipeg. Tourism Winnipeg highlights the city’s star attractions, festivals, events, arts, culture, restaurants and services to provide residents and visitors the best possible experience.

Tourism Winnipeg is under the larger Economic Development Winnipeg umbrella. As per the Economic Development Winnipeg 2021 Annual Report, they received funding of \$2,170,273 from the City of Winnipeg or \$2.90/capita. In comparison, as detailed earlier in the report, from a purely per capita perspective the City is providing a combined \$5.70/capita to SREDA and Discover Saskatoon

Current Status

City Administration has been meeting with Discover Saskatoon for the past several months regarding a new contract to continue existing services. Discussions have ranged from contract structure as well as funding levels for the work currently

contracted by the City of Saskatoon. An overview of the key items for consideration can be found below.

Inflationary Clause

The current inflationary clause within the contract is linked to commercial assessment growth. The intent of this inflationary clause was to link the success of tourism to commercial growth such as hotels, restaurants, and other tourism-based organizations. However, tourism-based assessment growth is only a fraction of commercial assessment growth as a whole and not the most relevant measure of Discover Saskatoon's value to the city. As seen by the chart below, the inflationary increases to Discover Saskatoon's funding have not kept up to inflation (CPI around 2.0%/year during the same timeframe) and ranged from 0.69% to 1.50%.

Year	Funding	Year over Year \$ Increase	Year over Year % Increase
2018	\$532,900	\$7,900	1.50%
2019	\$536,600	\$3,700	0.69%
2020	\$541,600	\$5,000	0.93%
2021	\$546,600	\$5,000	0.92%
2022	\$551,700	\$5,100	0.93%

There is an opportunity to explore a revised contract format with Discover Saskatoon to implement a model like SREDA which focuses on the achievement of certain key performance indicators that are of value to the City. These key performance indicators may include items such as hotel night stays, events attracted or other sources of funding. Since Discover Saskatoon's contract is expiring at the end of 2022, it would be difficult to negotiate and implement this contract model over the next several months. However, a bridge contract would allow time to negotiate new terms for presentation to Committee over the next year or two.

Contract Term

Historically, the contract between the City and Discover Saskatoon has been five years. However, based on the previous section of the report, a shorter contract would not only allow time to re-negotiate more meaningful KPI's, but would also allow the City to align the contract with the multi-year business plan and budget cycle. As such a one- or three-year contract are the options that will be provided for consideration.

City Funding

As seen in Appendix 2, Discover Saskatoon is proposing to expand their destination marketing services with a planned shift in approach to becoming a destination management and marketing organization. This will still see them promoting and marketing Saskatoon to the global markets, and they will now be working to foster the entire visitor experience from beginning to end. They have indicated this shift in approach and level of service will require additional efforts and resources which is why they have requested to renew the contract based on an increase of an additional

\$50,000 per year to bring funding up to \$706,700 per year by 2025. Within their proposal, in Appendix 2 on pages 22 to 24 they have identified a series of triple bottom line key performance indicators that could be used as a measure of performance and validation for the requested increase in funding, but more work is required to confirm the most appropriate KPIs, the benchmarks for achievement, and the methods of gathering data and reporting out.

As previously indicated, the City has preliminarily approved \$564,200 in the 2023 budget for Discover Saskatoon's annual grant. Discover Saskatoon's request would require an additional \$42,500 above what has been preliminarily approved to get to \$606,700 in requested funding. Since 2024 and 2025 budgets have not yet been developed, an additional \$50,000 in each year would need to be added and considered in future budgets.

OPTIONS

Option 1 – One-Year Bridge Contract to Redevelop Existing Terms

The first option is to approve a one-year bridge contract to allow time for Administration and Discover Saskatoon to redevelop the existing contract to consider financial incentives linked to key performance indicators.

This option would see Discover Saskatoon receive \$564,200 (2.27% increase) in 2023, including the redeployed Sport Tourism contribution, as per the 2023 preliminarily approved budget. The remaining terms of the current contract would be unchanged.

Option 2 – One-Year Bridge Contract with a 5% inflationary increase

This option is like the first option in that it approves a one-year bridge contract to allow time for Administration and Discover Saskatoon to redevelop the existing contract terms.

However, this option would abolish the current inflationary clause tied to commercial assessment growth and replace it with a 5% increase for 2023. The 5% inflationary increase could be added to acknowledge the fact that the current inflationary clause within the contract has not done a good job of keeping up with rising costs over the past five years, essentially reducing the impact the City contribution has had.

A 5% increase would be equivalent to a \$27,600 increase over the existing funding of \$551,700 to bring the total to \$579,300. As previously mentioned, there is \$564,200 (including the \$7,500 reallocation from Sports Tourism) included in the preliminarily approved 2023 budget which means an additional \$15,100 would need to be added to the 2023 budget. Like option 1, the remaining terms of the current contract would remain unchanged.

Option 3 – One-Year Bridge Contract to Redevelop the Existing Terms with a \$50,000 Increase

The third option would also approve a one-year bridge contract to allow time for Administration and Discover Saskatoon to redevelop the existing contract terms.

The main difference is that this option would provide Discover Saskatoon with the first year of their request (\$50,000 in 2023) to recognize that the City's contribution has not kept up with inflation and reward Discover Saskatoon for the valuable work they complete as a City partner. The inflationary clause tied to assessment growth would be removed, however, the remaining terms of the current contract would be unchanged. An additional \$42,500 would need to be added to the 2023 budget to accommodate this request.

Option 4 – Status Quo - 3 Year Contract with Existing Terms

This option would direct Administration to finalize a contract with Discover Saskatoon that would renew the existing terms of the contract over a 3-year period. This option would include inflationary clauses based on commercial assessment growth as well as existing service level requirements. The remaining terms the current contract would be unchanged.

Option 5 – Approve Discover Saskatoon's Request – 3 Year Contract

This option would direct the Administration to finalize a three-year contract with Discover Saskatoon that would include \$50,000 increases in funding in 2023, 2024 and 2025. This contract would be amended to include the additional service levels as outlined in Discover Saskatoon's presentation as well as replace the existing inflationary clause within the agreement.

RECOMMENDATION

That the Standing Policy Committee (SPC) on Finance recommend to City Council:

1. That option 2 be approved and the Administration be directed to renew the Discover Saskatoon contract with a one-year bridge contract with a 5% increase in annual funding;
2. That the increased operating budget cost beyond what has already been approved of \$15,100 be referred to 2023 budget deliberations with the recommendation that it be added to the 2023 budget;
3. That the Administration work with Discover Saskatoon regarding a revised contract format with a focus on Key Performance Indicators that could be tied to financial incentives and report back to SPC Finance in 2023; and
4. That the City Solicitors office be directed to prepare the agreement and that his Worship the Mayor and City Clerk be authorized to sign the agreement.

RATIONALE

While Discover Saskatoon certainly makes a compelling case to expand services and transition from a destination management organization to a destination management and marketing organization the timing for the requested increase in service levels and funding has several implications:

- As previously reported, the City is currently facing the prospect of a multi-million deficit in 2022 and needs to re-evaluate future budgets in the wake of our recovery from the COVID pandemic. The Administration is challenged to

consider recommending an increased service level based on the current financial reality; and

- As per the City's Multi-year Budget Policy, increases in service levels are at the discretion of City Council and at this time, Administration could not find objective evidence that this increase in service level and fees are required.

With that being said, the Administration does recognize that the existing inflationary clause within the current agreement is problematic. Not only is it not a good stand-alone representation of the value of the work that Discover Saskatoon does, but it has not kept up with inflationary pressures over the past five years, essentially eroding the impact of the City's contribution. As such a 5% increase in 2023 is being recommended to acknowledge the impact of the inflationary clause over the past five years.

Further to this, the City acknowledges that for Discover Saskatoon to truly achieve the results outlined in the Fee-for-Service agreement with the City, Discover Saskatoon is consistently working to leverage the funding from the City to generate additional sources of revenue (page 20, Appendix 2). The most significant of which, is through the partnership with Saskatoon Destination Marketing Hotels Inc. Highlighting that the current funding provided by the City represents less than 15% of the total revenues for Discover Saskatoon.

In terms of Discover Saskatoon's request, the Administration is recommending taking the next year to develop a contract that is more meaningful for the City and can better tie the value of Discover Saskatoon's work to the financial contributions they receive. The Administration believes taking one more year to see how the City emerges from the pandemic, how the tourism industry recovers, as well as more time to flesh out the approach to KPIs and increased service levels being proposed by Discover Saskatoon, will put us in a much better position to prepare a budget request aligned with our next two-year budget cycle for 2024 and 2025.

COMMUNICATION ACTIVITIES

The Administration has been in frequent communications with Discover Saskatoon throughout this process and the presentation of this report.

NEXT STEPS

If approved, the Administration will work with Discover Saskatoon to get the bridge contract in place and signed for 2023. The Administration will also continue to work with Discover Saskatoon regarding revisions to the contract as a whole and will report back to SPC Finance in 2023 regarding mandate, inflationary clauses, key performance indicators and financial incentive options for the next contract.

APPENDICES

1. Current Discover Saskatoon and City of Saskatoon Agreement
2. Discover Saskatoon – Fee for Services Agreement Request

REPORT APPROVAL

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