

TO: Secretary, Administration and Finance Committee
FROM: General Manager, Corporate Services Department
DATE: June 1, 2007
SUBJECT: Amusement Tax
FILE NO: CK. 1910-2

RECOMMENDATION: that the direction of the Committee issue.

BACKGROUND

City Council, at its meeting held on April 16, 2007, during consideration of the 2007 Operating Budget and, in particular, the above matter, resolved that the issue of amusement tax for theatres be referred back to the Administration and Finance Committee for further discussion.

DISCUSSION

As support for Council's ongoing discussions with regard to amusement tax, the following provides information regarding:

- a brief history of our amusement tax bylaw,
- two grants of amusement tax approved by City Council,
- current situation: Prairieland Park and Rainbow, Empire and Centre Cinemas,
- Amusement Tax in Canada, and
- options for discussion.

History

Archival data indicates the City of Saskatoon has had a bylaw for the collection of amusement tax dating back to the 1920s. For several decades (since about the mid 1950s), the City Bylaw in effect, Bylaw 5724, contained a wide definition of amusement. Many groups, activities, and venues were able to request (annually) an exemption from the application of this tax. The net result was that amusement tax was primarily collected and remitted by cinemas and the midway at the Saskatoon Prairieland Exhibition.

In 1999, after consideration of recommendations from the Internal Auditor, City Council directed that the City Solicitor rewrite the Amusement Tax Bylaw to identify only those activities that are actually being taxed under the existing bylaw. As a result, the definition of amusement as contained within the revised bylaw (Bylaw 7978) adopted by City Council on October 2, 2000, includes only motion picture cinemas and the midway at the Exhibition.

The bylaw came into effect on January 1, 2001. Since then, the City has received amusement tax from all motion picture cinemas and the Exhibition midway. City Council has approved grants to two cinemas equivalent to annual amusement tax remitted.

Grants

Grant equivalent to Amusement Tax remitted, Roxy Theatre

The Enterprise Zone policy that came into effect in 2002 contains provisions intended to encourage businesses to locate or expand their operations in the Enterprise Zone. In 2004, City Council received a request to amend the policy to allow the inclusion of an amusement tax rebate (up to five years) for cinemas in the enterprise zone. The specific discussion when this amendment was considered was the re-use of the former Roxy Theatre (Towne Cinema) on 20th Street. The amendment was focused on cinema use only, and the Roxy Theatre is the only existing cinema within the Enterprise Zone.

In 2006, the first year of five-year rebate period expiring in 2010, the rebate to the Roxy Theatre was \$10,588. Based on the past 8 months, the rebate for 2007 is projected to be approximately \$8,500.

Grant equivalent to Amusement Tax remitted, Galaxy Theatre

On May 18, 2005, the City of Saskatoon entered into an agreement with Viacom Canada Inc. ("Famous Players") and Princeton Developments Ltd. The grant was approved as an incentive for the construction of the movie theatre in the south downtown. One component of the agreement is with respect to an annual ongoing grant to Famous Players for amusement tax collected.

Based on monthly receipts since September, 2006, and assuming movie attendance at the Galaxy Theatre remains consistent, the grant amount for 2007 will be approximately \$440,000.

Current situation

As required by bylaw, amusement tax continues to be remitted by Prairieland Exhibition, and the Rainbow, Empire, and Centre Cinemas.

Prairieland Exhibition

Prairieland Park continues to remit amusement tax averaging \$42,000 annually from admissions to the exhibition midway. The park is undergoing development, and City Council had been asked to consider providing a grant equivalent to the amusement tax remitted. This grant, should it be approved, would provide a source of capital for reinvestment into further development in Prairieland Park to enable it to attract major trade shows and other events to the City. On November 14, 2005, City Council approved Prairieland's request and referred it to the Budget Committee. To date, it has not been funded.

Rainbow, Empire, and Centre Cinemas

The amusement tax remittances from the three remaining cinemas for the fourth quarter of 2006 indicated a decline in attendance at these three theatres. That trend has continued into the first quarter of 2007. The following chart indicates projected 2007 amusement tax revenue based on

the first quarter of 2007, together with the average percentage decline in receipts in 2007 compared to the same period of 2006:

	Projected 2007 <u>Amusement tax</u>	Average monthly decline in remittances <u>(2007 to 2006)</u>
Empire Theatre	\$ 18,239	-66.7%
Centre Cinemas	44,040	-66.7%
Rainbow Cinemas	<u>79,692</u>	-27.8%
	\$141,971	

Amusement Tax in Canada

The jurisdictions in Canada where amusement tax is currently collected are Winnipeg, Regina, and Saskatoon.

	Calgary	Regina	Saskatoon	Winnipeg	Toronto	Vancouver
Authority to levy	None	The Cities Act	The Cities Act		City of Toronto Act, 2006	None
Application of tax	n/a	Movie theatres	Movie theatres Exhibition midway	Movie theatres & Facilities with seating capacity greater than 4,999	n/a	n/a
Tax rate	n/a	10% on all admissions	9% on some admissions	10% of admissions over \$5.00	n/a	n/a

The City of Winnipeg updated its amusement tax bylaw in 2006. Whereas the previous bylaw included a wide definition of entertainment with many exemptions, *The Simplified Entertainment Funding By-Law* exempts all places of amusement except movie cinemas and entertainment facilities with a seating capacity of 5,000 or greater. As stated in the Bylaw: “*the purpose of this tax is to provide a source of funding for arts and culture in the City of Winnipeg.*”

The levying of amusement tax in Canada is relatively rare, but a number of municipalities in this and other provinces continue to lobby provincial governments for the ability to fund municipal programs from sources of revenue other than property tax. For example: Edmonton, Calgary, and other Alberta cities do not currently have authority to raise revenue through amusement tax. However, as discussed in an article in *Calgary Herald* of May 27, 2007, a proposal is currently before the Alberta provincial government recommending cities have, among other taxing powers, the ability to levy an amusement tax.

Further, *The City of Toronto Act, 2006*, proclaimed on January 1, 2007, provided Toronto’s civic government with “more flexibility to raise revenue in addition to property tax”¹ including the

¹ <http://www.mah.gov.on.ca/Page587.aspx>

authority to levy amusement tax. That City's Administration is currently investigating the various new revenue generation tools supplied through the Act. While no decisions have been made to date, a consultant's report on the subject summarized their perspective of the issues regarding amusement tax:

The taxing of amusement admissions is generally justified on two grounds. Firstly, it is a tax on discretionary consumption, often disproportionately by higher income earners. Secondly, at least a portion of a tax would be exported since non-residents will often spend money at entertainment events. Conversely, a tax on admissions may adversely affect organizations and activities which are generally considered particularly beneficial to the City.²

OPTIONS

City Council made the decision to make no amendments to the Amusement Tax Bylaw for 2007. While there may be others, the following options are offered for the purposes for further discussion:

Option 1: Eliminate the Amusement Tax Bylaw

The elimination of the collection of amusement tax will result in a reduction of approximately \$184,000 (\$142,000 cinemas and \$42,000 from the midway at Prairieland Exhibition) to the annual operating budget. To maintain existing service levels, this would require other revenue sources be identified to offset this reduction.

Option 2: Exempt amusement tax on admissions under \$5.00

A second option is to amend the Bylaw to provide an exemption on movie admissions under \$5.00, as was done by the City of Winnipeg. Assuming only the Rainbow Cinemas offers movie admissions for less than \$5.00, the annual revenue reduction will be approximately \$80,000.

This option may be seen as inequitable by the other two cinemas.

Option 3: Exempt amusement tax on admissions to cinemas in the downtown core

Amending the Bylaw to provide an exemption on movie admissions in the downtown core would result in approximately \$18,000 reduction of annual operating revenue.

This amendment would exempt only the Empire Theatres (previously Capital 4). At the same time, it would recognize that this theatre has played a role in maintaining activity in the core area for many years by attracting people to the downtown in the evenings and weekends

This option may be considered inequitable by the other two cinemas.

² http://www.toronto.ca/finance/pdf/cota_revtoolsfinal.pdf

Option 4: Exempt amusement tax on admissions to cinemas in the same market as the Galaxy

Another option may be to amend the Bylaw to provide an exemption on movie admissions to cinemas in the same market at the Galaxy Theatre (i.e. playing 'first run' movies). Assuming this applied to both Empire Theatre and Centre Cinemas, the revenue expectation for 2007 would be reduced by \$62,000.

This option may be considered inequitable by the one cinema (playing 'second run' movies) that would not be subject to this amendment.

Option 5: Eliminate the Amusement Tax Bylaw over a period of 2 or 3 years

The total amusement tax remitted by the three cinemas for 2007 is anticipated to be approximately \$142,000, with approximately \$42,000 remitted by Prairieland Exhibition. City Council may choose to eliminate the collection of amusement tax over a period of two, three or four years for cinemas only, for Prairieland Exhibition only, or for both.

As in every preceding option, to maintain existing service levels, other revenue sources must be identified to offset this reduction.

Option 6: Provide an annual grant to Prairieland Park

City Council may approve Prairieland Park's request for a grant equivalent to amusement tax remitted to be used in capital programming. A future agreement would stipulate the grant be used for capital costs only. Further, at the end of the calendar year, Prairieland Park would be required to provide an accounting of where the grant money was spent.

Option 7: Expand amusement tax bylaw to admissions at other venues

City Council may instruct Administration to investigate the option of amending the amusement tax bylaw to include admissions to events other than movies and the Prairieland Exhibition midway. The criteria regarding where amusement tax would be charged could be based on ticket price, seating capacity (as is done in the City of Winnipeg), or a combination.

Specifying where the amusement tax revenue is to be spent may contribute to public understanding and acceptance of the tax. The City of Winnipeg designates amusement tax revenue to fund the local arts. Some jurisdictions in the United States have used the revenue to fund the development of new venues. Rationale for this approach may also include the relative stability and reliability for this source of revenue for development of future programming.

Another aspect of amusement tax considered positive by some is that a portion of the revenue would be collected from non-residents attending events in the City. However, all the revenue would be available to be allocated by Council as funding for a particular program, as was done in Winnipeg, or to reduce the overall tax property tax burden on the citizens of Saskatoon.

This option may be considered less than desirable by venue operators with concerns such as:

- Risk of declining patronage,
- decreased revenues,
- administrative costs of remitting, and
- equity of selection of venue to which amusement tax will apply.

PUBLIC NOTICE

Public Notice pursuant to Section 3 of Policy No. C01-021, Public Notice Policy, is not required.

Written by: Shelley Sutherland, City Treasurer

Approved by: Marlys Bilanski
Marlys Bilanski, General Manager
Corporate Services Department
Dated: June 5, 2007