

ESTIMATING POTENTIAL HOTEL ROOM TAX REVENUES

The Department of Finance has used two methods to estimate current accommodation revenues in the NWT. The two methods produce consistent estimates of accommodation revenues in the NWT.

A. Based on Statistics Canada Survey

Statistics Canada publishes annual accommodation services revenues based on surveys of establishments across Canada. Annual accommodation services revenue in the pre-Division NWT reached \$64 million in 1997, the most recent year for which data is available from Statistics Canada.

For Canada as a whole, approximately 55 per cent of accommodation services revenues came from room charges, with the remainder coming from food, alcohol and hotel services. If 55 per cent of accommodation services revenues in the pre-Division NWT were from rooms, then total room revenues in the pre-Division NWT were \$35 million per year.

However, because accommodation services in the NWT are more heavily weighted to smaller establishments than in the rest of Canada, it is likely that the proportion of revenues from room charges was higher in the NWT. Assuming 65 per cent of revenues in the NWT were from room charges, 1997 room revenues in the pre-Division NWT were over \$40 million per year.

It is necessary to allocate these pre-Division NWT revenues between the two new territories. About 60 per cent of the hotels and motels in the pre-Division NWT were located in the western NWT. This is consistent with the east-west allocation of population.

Allocating the \$35-\$40 million in 1997 room revenues in the pre-Division NWT between Nunavut and the NWT based on population would indicate room revenue of \$21-\$24 million per year in the NWT. These figures do not take into account any changes in accommodation services revenues since 1997.

B. Based on RWED Room Survey

An estimate of hotel room revenues also comes from a survey done by the Department of Resources, Wildlife and Economic Development (RWED) in 2000. According to the survey, there are currently 1,160 hotel, motel and bed and breakfast rooms in the NWT. The vast majority of these rooms are situated in 40 hotels, motels and inns.

RWED's room estimates include 28 bed and breakfast establishments, some of which would be excluded from the tax, since they would have less than 4 rooms. However, the survey does not include the estimated 50 lodges in the NWT, which have an estimated capacity of approximately 800 people. Accommodations in some of these lodges would be subject to the tax.

There is no data as yet on room charges or annual occupancy rates for the post-Division NWT. A brief survey of room rates in different communities across the territory indicated that a rate of \$100 per room would represent a prudent estimate of average room charges. Occupancy rates are assumed to be 60 per cent, based on the average of the 1996 and 1997 occupancy rates estimated by Statistics Canada for the pre-Division NWT. Based on an average nightly rate of \$100 and a 60 per cent occupancy rate, the annual revenue from the 1,160 rooms would be \$25 million.

FINANCIAL IMPLICATIONS:

Based on the two estimation methods above, annual room revenues from hotels, motels, bed and breakfasts, and lodges amount to \$21-\$25 million per year in the NWT.

Each percentage point of a hotel room tax levied on room charges would raise approximately \$210,000-\$250,000 per year. It is expected that a five per cent rate will raise \$1.1-\$1.3 million per year in tax revenues for the GNWT. The revenues generated could be higher depending on the number of accommodations in lodges that would be subject to the tax.

The total revenues raised through a hotel room tax would be offset by a number of factors. One of these would be the cost of administering and enforcing such a tax. Ongoing administration costs are estimated at \$100,000 per year. One-time costs for implementation and start-up are estimated at \$50,000.

The Hotel Room Tax would also increase GNWT travel costs. Based on the 1999-2000 fiscal year, GNWT employees on duty travel spent \$1.5-\$2.0 million on hotel rooms in the NWT. Therefore, \$75,000-\$100,000 in annual Hotel Room Tax revenues would be paid by GNWT employees on duty travel. These costs do not include the expenditures by boards, agencies and other entities funded by the GNWT on hotel accommodation in the NWT. The Department of Finance will undertake to develop an estimate of the overall impact of a five per cent hotel tax on these entities.