

REPORT

ADMINISTRATIVE SERVICES COMMITTEE

MEETING DATE: JUNE 18, 2018

FROM: Economic Development Department and Finance Department

DATE: May 15, 2018

SUBJECT: Municipal Accommodation Tax

LOCATION:

WARD: Town wide

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RECOMMENDATION:

1. That implementation of a four percent (4%) Municipal Accommodation Tax (MAT) in the Town of Oakville, commencing January 2019, be endorsed;
2. That the Municipal Accommodation Tax (MAT) revenue, net of a reasonable collection and administration fee, be split equally between the Town of Oakville and the Oakville Tourism Partnership Inc., operating as "Visit Oakville"; and
3. That staff be directed to report back with the requisite documentation including by-laws, agreements and the establishment of a reserve, to implement the Municipal Accommodation Tax (MAT).

KEY FACTS:

The following are key points for consideration with respect to this report:

- The Province enacted legislation to permit municipalities the ability to implement a Municipal Accommodation Tax (MAT) on transient accommodations.
- A minimum of 50% of the revenue from the MAT must be shared with eligible tourism entities.
- Visit Oakville, the tourism organization in Oakville, has requested that the Town of Oakville implement a 4% MAT and remit 100% of the revenue, net of a collection and administration fee, to Visit Oakville.
- This report recommends implementation of a 4% MAT with an equal split of revenue between Visit Oakville and the Town of Oakville.

BACKGROUND:

The 2017 Provincial Budget granted municipalities the authority to implement a tax on transient accommodations. On November 23, 2017, the Province of Ontario enacted Ontario Regulation 435/17 which came into force December 1, 2017. The regulation prescribes the necessary provisions for municipalities to implement a Municipal Accommodation Tax (MAT) for transient accommodations, being accommodations of 29 consecutive nights or less.

The purpose of the MAT is to support communities that invest in tourism to enable growth in the sector and increase tourism's economic impact.

Financial Impact

Visit Oakville has estimated that implementation of a 4% tax on transient accommodation in Oakville will generate between \$500,000 – \$1.1 million per annum, based on 2016/17 occupancy and room rates. Finance staff have found this estimate to be reasonable utilizing a 4% MAT rate and assuming 1,000 rooms with 60% occupancy. This estimate takes into account the fact that several Oakville hotels target extend-stay (30+ nights) visitors, which are exempt from the MAT. The estimate also excludes revenue from Airbnb and Bed & Breakfast accommodations, as well as universities and colleges; the former can be considered under Regulation 435/17, the latter is exempt.

For each year or partial year that the MAT is in effect, a payment of at least 50% of the total MAT revenue, net of a collection and administration fee, must be made to an eligible tourism entity. The remaining 50% of the MAT revenue would remain with the Town of Oakville.

Legislative Features

The legislation allows municipalities to raise additional revenues which, net of the reasonable costs of collecting and administering the tax, are to be shared, with a minimum of 50% being allocated to the eligible tourism entity. In Oakville, that entity is the Oakville Tourism Partnership Inc., operating as "Visit Oakville".

The legislation also requires that an agreement be entered into between the Town of Oakville and Visit Oakville to ensure that the amounts paid to Visit Oakville are used exclusively for tourism promotion and development and that reasonable financial accountability is maintained.

Visit Oakville

Visit Oakville is the destination tourism organization comprising stakeholders from the Oakville Chamber of Commerce, hotels, BIAs, sport and culture. One member of Town Council is appointed to sit on the Board of Directors and the Director of

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Economic Development participates as an ex-officio member. The organization has a Services Agreement with the Town of Oakville to provide tourism services including:

- Visitor information;
- Event and facilities support;
- BIA support;
- Website;
- Research; and
- Visitor Guide.

The current Services Agreement, which provides for annual funding of \$99,500 as well as office space for the organization, expires December 31, 2019 unless extended by the parties in writing. The Economic Development department provides oversight regarding the agreement.

At its meeting of April 24, 2018 the Visit Oakville Board endorsed a recommendation to request that the Town of Oakville implement a 4% Municipal Accommodation Tax and that all of the revenue, net of a collection and administration fee, be paid to Visit Oakville. The MAT revenue, estimated to be between \$500,000 to \$1.1 million per annum would provide greater capacity for the organization to target priority markets; explore product development strategies such as sport tourism and group tours; as well as develop and fund existing and new events that have the ability to bolster visitation and contribute to increased hotel occupancy.

Visit Oakville has also requested that the Town maintain its core funding of \$99,500 and the provision of office space, as a commitment to the tourism sector in general. By continuing to provide core funding, the MAT revenue would be applied to new, incremental strategies and programming. The core funding would also provide a level of confidence that the organization's base funding would remain should the proposed MAT be cancelled at some point in the future.

COMMENT/OPTIONS:

Revenue Sharing Rules

Regulation 435/17 prescribes the revenue sharing rules for the following two scenarios:

1. Municipalities with an existing Destination Marketing Fee (DMF)

- Examples: City of Toronto, City of Mississauga, City of Ottawa and the City of Niagara Falls.
- Municipalities with an existing Destination Marketing Fee (DMF) program in place are required to share the hotel tax revenue with the appropriate non-

profit tourism organization in an amount that matches the total revenue generated by the existing (DMF) program.

2. Municipalities without an existing Destination Marketing Fee (DMF)

- Examples: City of Markham and the **Town of Oakville**
- Municipalities **without** a DMF program like the Town of Oakville would be required to share at least 50% of the Municipal Accommodation Tax revenue, net of costs for collecting and administering the tax, with one or more eligible tourism organization. Regulation 435/17 defines an eligible tourism organization as a non-profit entity whose mandate includes the promotion of tourism in Ontario or in a municipality. Any eligible tourism organization that is being provided revenue from the tax must use the funds for the exclusive purpose of promoting tourism.
- The remainder of funds collected (maximum of 50%) have no restrictions; however, it may be important for stakeholders to see these funds benefiting tourism-related initiatives and/or infrastructure projects supporting tourism.

Other Municipalities

Currently, several other Ontario municipalities with large tourism sectors are considering or have implemented a 4% tax, including Toronto, Mississauga, Ottawa, Niagara Falls and Markham. Below is a summary of the programs being implemented / developed in other jurisdictions.

City of Toronto (MAT implemented)

- The City of Toronto had a voluntary Destination Marketing Fee (DMF) of 3% in which the majority of Toronto hotels participated.
- The Greater Toronto Hotel Association administered the 3% DMF fee on behalf of Tourism Toronto which is the local non-profit tourism organization for the City of Toronto.
- On January 24th, 2018, Toronto City Council approved the 4% Municipal Accommodation Tax for hotel accommodations and short-term rentals.
- The MAT will commence with the following effective dates: Hotels – April 1st, 2018; and Short-Term Rentals – expected to be on or after June 1st, 2018.
- The Greater Toronto Hotel Association will continue to administer (collect and remit) the MAT-Hotels on the City of Toronto's behalf.
- All costs for collection and administration of the MAT will be funded from the tax proceeds. The net revenue estimate for MAT, after sharing with Tourism

Toronto in accordance with the provincial regulation, is estimated to be from \$17.2 million to \$28.2 million annually, and \$14.6 million to \$23.0 million in 2018 if the MAT-Hotel is implemented on April 1, 2018, and the MAT-STR is implemented on June 1, 2018.

- Toronto staff are also seeking to enter into agreements for the collection of the Municipal Accommodation Tax outside the GTHA membership with short-term housing providers like Airbnb. Discussions have commenced with short-term housing providers.

City of Mississauga (MAT approved)

- The City of Mississauga had a voluntary Destination Marketing Fee (DMF) of 3% in which only two hotels participated.
- The Greater Toronto Hotel Association (GTHA) administered the 3% DMF fee on behalf of Tourism Toronto which is the City of Mississauga's current local non-profit tourism organization.
- On November 1st, 2017, Mississauga City Council endorsed a 4% Municipal Accommodation Tax and directed staff to report back with an implementation plan that would be effective July 1st, 2018.
- On February 7th, 2018, City staff reported to Council with details related to the implementation and administration of the MAT which commenced on April 1st, 2018.
- The staff report stated that a 4% MAT will generate approximately \$9.8 million in revenue annually.
- City staff recommended a simplified remittance model, a method that is currently being used by businesses to remit GST/HST to the Canada Revenue Agency.
- Mississauga staff are also seeking to enter into agreements for the collection of the Municipal Accommodation Tax outside the GTHA membership with short-term housing providers like Airbnb. Discussions have commenced with short-term housing providers.

City of Ottawa (MAT implemented)

- The City of Ottawa had a voluntary Destination Marketing Fee (DMF) of 3%. Approximately 50% of the hotels in Ottawa participated in the program, which represents 90% of the total hotel room stock.

- The Ottawa Gatineau Hotel Association (OGHA) administered the 3% DMF fee on behalf of Ottawa Tourism.
- On November 27th, 2017, Ottawa City Council endorsed a 4% Municipal Accommodation Tax, effective January 1st, 2018 on both hotel accommodations and on short-term rentals.
- The OGHA will continue to administer the MAT on behalf of the City and Ottawa Tourism.
- Ottawa staff are also seeking to enter into agreements for the collection of the Municipal Accommodation Tax outside the OGHA membership with short-term housing providers like Airbnb. Discussions commenced and will continue in 2018 and beyond.

City of Niagara Falls (MAT approved)

- On November 28th, 2017, Niagara Falls Council endorsed a 4% hotel tax and directed staff to report back with an implementation plan that would be effective April 1st, 2018.
- The staff report indicated that a 4% MAT rate would generate approximately \$15 million in revenue, of which 50% would have to be shared with Niagara Falls Tourism and/or another organization promoting tourism in Niagara Falls.
- The MAT will also be applied to short term rentals (Airbnb) and other forms of short-term accommodations.
- City staff will report back to Council in early 2018 on the application of the MAT.

City of Markham (to be determined)

- A staff report dated February 20th, 2018 requested authorization to engage stakeholders and the hotel industry regarding the potential for a 4% MAT in the City of Markham.
- The report recommended that the city's portion of the MAT revenue be directed towards the Life Cycle Replacement and Capital Reserve Fund as a funding source to support the replacement and rehabilitation requirements of the city's tourism related infrastructure.
- A business case was to be developed for the creation of a Municipal Services Corporation that would operate as the city's new tourism organization.

City of Burlington (to be determined)

- The Burlington had a Destination Marketing Fee in effect from 2007 until 2010. At present, the City of Burlington provides the core funding for Tourism Burlington.
- At its meeting of May 17, 2018 Tourism Burlington passed a motion indicating that they would like the City of Burlington to bring forward a report in 2018 regarding implementation of a MAT.

OPTIONS FOR THE TOWN OF OAKVILLE:**1. Status Quo – Do not implement the MAT**

Provincial legislation provides a mechanism to generate new revenue to support the local tourism industry through a MAT. The Visit Oakville Board and a sub-committee representing hotels have discussed the proposed introduction of a MAT; both groups are supportive of a 4% tax for Oakville on the basis that the funds be used to promote increased overnight visitation. Many other Ontario municipalities have or are in the process of implementing a MAT and as such, imposition of a MAT in Oakville would not result in a competitive disadvantage. Support for the MAT by local hotels and Visit Oakville is indicative of the perceived need for additional resources to support tourism; consequently, a status quo option is not recommended.

2. Implement the MAT and remit 100% to Visit Oakville

The Visit Oakville Board has requested that the Town implement the MAT and give all of the revenue, except for an administrative and collection fee, to Visit Oakville. In addition, Visit Oakville has requested that the Town maintain its core funding of \$99,500 as well as the provision of office space for the Executive Director and part-time staff. The existing Services Agreement between Visit Oakville and the Town, that includes the above-noted funding, will expire December 31, 2019, unless both parties agree in writing to extend the agreement.

At present, there is one full time Executive Director and one part-time staff member for the organization. The majority of its funding is derived from the Town. Other tourism partners contribute a total of approximately \$17,000 per annum. The combined Town and partner revenue provides a base budget of less than \$120,000 per annum. In some years, this amount has been supplemented by provincial grants for student ambassadors.

If a 4% MAT is implemented, Visit Oakville has estimated that annual revenue will range from \$550,000 to \$1.1 Million. This would be a significant increase in revenue

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for the organization that would allow it to increase its capacity for product development, promotion, events, and customer service.

Under the MAT regulation, the Town of Oakville is required to share at least 50% of the MAT revenue with Visit Oakville. A 50% share would mean that Visit Oakville's current funding of approximately \$120,000 per annum would increase by an estimated \$225,000 at the low range, up to an increase of \$550,000 at the high range. If Visit Oakville's core funding from the Town and partners was eliminated, then the organization would still realize substantial funding from the MAT.

While Visit Oakville is the predominant marketing organization for tourism in Oakville, the Town of Oakville also incurs tourism related expenses that benefit the industry. For example, the Town provides tax supported costs for the RBC Canadian Open of approximately \$90,000 each time that Oakville hosts this event. Other major events are also a draw for visitors to the community and require financial support from the Town. The Town also invests in and maintains infrastructure that contributes to the tourism industry including the Oakville Centre for Performing Arts and the Oakville Museum.

Given that both Visit Oakville and the Town contribute to the tourism industry, staff do not support Visit Oakville's request for 100% of the MAT revenue.

3. Implement the MAT and remit 50%

Staff recommend that the 4% MAT be implemented and that the revenue, net of an administration and collection fee, be shared equally between the Town and Visit Oakville. At 50% revenue sharing, Visit Oakville stands to increase its budget by at least two times, and possibly over four times, its current funding level. This would still permit the organization to increase its capacity for service delivery and product development.

Local stakeholders support the implementation of the MAT in 2019, providing a window in 2018 to introduce the tax in corporate contracts that are being set for 2019.

The proposed revenue sharing formula will provide financial resources for both the Town and Visit Oakville to support the tourism industry through promotion, product development, service delivery and infrastructure investment.

RECOMMENDATIONS FOR IMPLEMENTATION:

Staff recommend that the third option be approved, being implementation of the MAT, with 50% of the net revenue to be remitted to Visit Oakville. The regulations require that an agreement be put in place to ensure that the funds are used exclusively for tourism promotion and development and that reasonable financial accountability is maintained.

The existing Services Agreement between the Town of Oakville and Visit Oakville provides core funding of \$99,500 for Visit Oakville. This agreement expires December 2019. When the Services Agreement was negotiated, the intention was to provide a base level of support for Visit Oakville, given that a self-sustaining, industry supported mechanism was not available. The new legislation now offers the ability to generate such revenue and accordingly, it should replace the core funding. In order to maintain adequate cash flow as the MAT is first introduced, it is recommended that the Town maintain the core funding of \$99,500 in 2019 to provide a period of transition to the new tax structure and continuity in operations.

Office and meeting space is currently provided for Visit Oakville at Town Hall, the estimated cost of which is approximately \$30,000 per annum. It is recommended that the Town continue to provide this facility support for Visit Oakville.

An effective date of January 1, 2019 is recommended for the implementation of the MAT. This will allow tourism stakeholders and town staff to prepare for its introduction. Staff will develop procedures for collection, remittance, audit and enforcement that will be included in the requisite agreement. Implementation details including scope (i.e. whether the tax will apply to just hotels or other short-term accommodations as well) and recommendations regarding use of the Town revenue and establishment of a reserve, will be brought to Council later in the year.

CONSIDERATIONS:

(A) PUBLIC

Town staff participated in a discussion with local hotels, led by Visit Oakville, regarding the proposed MAT. The hotels consulted are supportive of the proposed 4% MAT, contingent on the revenue being used to support tourism related promotion, events, services and infrastructure. The Visit Oakville Board is also supportive of the proposed 4% MAT but have requested that 100% of the revenue be remitted to Visit Oakville and that core town funding for tourism be continued.

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(B) FINANCIAL

The proposed MAT will provide a new source of revenue for the Town. Administrative and collection costs can be deducted from the revenue collected on accommodation stays. The MAT has the potential to decrease taxpayer supported costs if core funding for Visit Oakville is eliminated. As well, the Town's share of the MAT could be used to fund tourism related event and infrastructure costs that are currently tax supported.

(C) IMPACT ON OTHER DEPARTMENTS & USERS

Imposition of the MAT will require the Finance and Municipal Enforcement resources for administration and collection as well as Economic Development oversight of the agreement with Visit Oakville.

(D) CORPORATE AND/OR DEPARTMENT STRATEGIC GOALS

This report addresses the corporate strategic goal to:

- enhance our economic environment
- continuously improve our programs and services
- be fiscally sustainable

(E) COMMUNITY SUSTAINABILITY

The proposed Municipal Accommodation Tax will increase the capacity of Visit Oakville and the Town to support the tourism industry in Oakville, thus benefitting the local economy.

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