

DEPARTMENT/ DIVISION	City Manager's Office – Corporate Strategic Services	REPORT NO.	R 77/2018
DATE PREPARED	05/25/2018	FILE NO.	
MEETING DATE	06/04/2018 (mm/dd/yyyy)		
SUBJECT	Municipal Accommodation Tax (MAT) – Proposed Implementation		

RECOMMENDATION

With respect to Report No. R 77/2018 (City Manager's Office – Corporate Strategic Services) we recommend approval of implementation of the Municipal Accommodation Tax, effective September 1, 2018 as outlined in this Report.

AND THAT the rate be set at 4%;

AND THAT Administration be directed to report back to Committee of the Whole prior to implementation with a detailed proposal for the structure and implementation of the program;

AND THAT any necessary by-laws be presented to City Council for ratification.

LINK TO STRATEGIC PLAN

Becoming our Best, the 2015-2018 Corporate Strategic Plan includes the following:

Goal 13: Premier visitor destination

Goal 15: Welcoming to world with globally enhanced image and identity

EXECUTIVE SUMMARY

This Report seeks Council's approval to implement a Municipal Accommodation Tax for the City of Thunder Bay, effective September 1, 2018. The rate is proposed at 4% in keeping with the trend in municipalities across the Province.

Subject to Council approval, Administration will give written notice to the accommodation sector immediately following ratification and report back to Council with a detailed proposal for structure and implementation of the program prior to implementation.

This Report also summarizes the results of a Stakeholder Engagement Session on May 15, 2018, and changes made in response to that input.

DISCUSSION

On December 1, 2017, the Transient Accommodation Regulation 435/17 came into force and provided the necessary authority for municipalities across Ontario to implement a Municipal Accommodation Tax (MAT).

Subject to Council's approval to proceed, a Municipal Accommodation Tax at the recommended rate of 4% is estimated to potentially generate approximately \$2 million annually. The net revenues are to be used to promote tourism development and provide a new source of revenue for the municipality.

Revenue Sharing

The Regulation prescribes how revenues are to be shared between the respective municipalities and designated eligible not-for profit tourism organization(s).

Fifty per cent of the revenues are to be remitted annually to one or more eligible not for profit tourism entities. "Eligible tourism entity" is defined broadly in the Regulation as a non-profit entity whose mandate includes the promotion of tourism in Ontario or in a municipality. The Regulation defines Tourism promotion to include product development. For example, the Tourism Thunder Bay Product Development Guiding Document (2017-2021) was approved in principle by Committee of the Whole on November 27, 2017. The Guiding Document identified that, subject to Council's approval to proceed, this new revenue tool could generate significant funding annually for tourism product development support that could include:

- Sport and corporate event bid support and hosting
- Financial capital investments in large scale community tourism infrastructure
- Cultural event development and ongoing support
- Financial support program to incubate new product development

While the City's use of its share of the revenues, consisting of the other 50 per cent of taxes to be generated, is unrestricted, in keeping with the spirit of the tax, the City of Thunder Bay has a number of Council-approved plans that would contribute to Tourism product development that have no source of funding including the Wayfinding Plan and aspects of the Recreation and Facilities Master Plan.

Transient Accommodation

If implemented, the Municipal Accommodation Tax as per Regulation applies to all hotels, motels and short-term accommodation doing business within the boundaries of the

City of Thunder Bay. The tax would apply to accommodations provided for a continuous period of less than 30 days in a hotel, motel, lodge, inn, bed and breakfast, dwelling unit or any place an accommodation is provided.

Online private short term accommodation platforms such as Airbnb and HomeAway would also be subject to the MAT with each marketing platform remitting on behalf of their accommodation providers on a monthly basis.

Exemptions

Campsites and campgrounds for RVs would be exempt, as are university and college residences. As per the Regulation, universities and college residences are exempt from the MAT at all times even during non-school use, even in the summer when they rent out the dorm rooms to other groups and travellers. Some municipalities in Ontario with university and college accommodations are asking the institutions to voluntarily remit when rooms are booked by transient travelers during non-school times. Tourism Thunder Bay staff are meeting with local institutions to discuss voluntary remission.

Other exemptions include other school board accommodations, hospitals, long-term care homes and hospices.

Revenues generated from other hotel services such as meeting room rentals, food and beverage and room service, would be excluded from the MAT.

CONSULTATION

Stakeholder Engagement

On April 30, 2018, Council authorized Administration to meet with accommodation stakeholders and the broader business community to build awareness and seek input on how the proposed tax will be administered.

Letters of invitation were sent to local accommodation providers including hotels and motels as well as the Chamber of Commerce and tourism industry partners for a Stakeholder Engagement session held on May 15, 2018.

In attendance at the meeting were 36 people from the hotel industry. Their organizations have 2219 rooms which represents most of the 2360 rooms in the city. An additional 14 people were in attendance from events and attractions, the City and Thunder Bay Community Economic Development Commission and others.

The session, facilitated by Ms. M. Wanlin, started with a presentation on the Municipal Accommodation Tax (MAT) with the speakers including Ms. K. Lewis, Director-Corporate Strategic Services, Mr. J. Cameron, Development Officer II, Tourism Thunder Bay, and Mr. D. Hrychuk, Accountant, Corporate Services and Long-Term Care. Ms. Lewis shared proposed recommendations to Council including the recommendation that

the MAT be implemented, and at a rate of 4%, effective August 1, 2018. Following the presentation, the speakers formed a panel and received questions and comments from the audience.

Three key themes emerged. Firstly, participants wanted to see the implementation date moved beyond August 1. The August date was seen as too aggressive, particularly for small properties. Secondly, governance concerns were raised including a desire to ensure accommodation industry representation on the decision-making body, suggested consideration of other organizations in addition to Tourism Thunder Bay as the body to host the decision-making group, and the desire for assurance that these new funds would add to and not replace funds currently invested by the City. Thirdly, several people raised the concern that smaller properties would be disproportionately impacted due to the added administration burden and the cost conscious nature of their clientele.

Themes in detail

Key Messages included the following (*Changes and/or Administration's response in italics*):

1. Timing.

Some people felt that an August 1, 2018 start date was too quick, especially for smaller organizations which will need to make changes to their systems without corporate assistance. Suggestions included September 2018, October 2018, and January 2019. *Based on this input and in consultation with the Chair of the Thunder Bay Hotel Association, Administration is proposing a September 1, 2018, implementation date.*

2. Governance

Assurance that the accommodation industry is represented in decision making.

Some speakers wanted to be assured of accommodation industry involvement in the allocation of the 50% of funds that are directed toward tourism product development and marketing, based on their understanding of the industry and its growth needs.

Interest in having other more arm's length organizations considered regarding directing 50% of the funds

The speaker indicated a preference for considering housing this function in an outside non-profit such as the Thunder Bay Chamber of Commerce which is not as closely connected to the City.

Assurance that the new money is incremental and adds to the funds available for tourism development and marketing rather than replacing existing sources of funds.

The speaker did not want to see the tax-supported budget for tourism development and marketing reduced. Rather, the speaker wanted to see a larger effort in these areas.

Administration will keep in mind this input and report back with a detailed proposal for structure and implementation of the program prior to implementation of the tax.

While the Thunder Bay Chamber of Commerce had suggested an expression of interest process be open to organizations such as the Chamber and the Hotel

Association, officials of both organizations are aware that Administration is exploring opportunities for Tourism Thunder Bay to operate as a not-for-profit as it is the recognized Destination Marketing Organization and the voice for tourism in Thunder Bay.

3. Impact on small properties

People representing small properties felt they would be disproportionately impacted due to administration costs, price sensitive customers, people using their facilities who are here for medical reasons and not tourism and the overall burden of collecting an additional tax for government. *Exemptions based on size are not contemplated. The Hotel Association cautions against providing exemptions based on size for equity reasons and the growing popularity of alternative accommodations such as Airbnbs. Support will be provided for the transition such as a Frequently Asked Questions (FAQ) card with a contact within Tourism Thunder Bay to answer questions from the sector and its customers.*

4. Other

Concerns beyond the City's influence.

Some points that were raised are outside the City's ability to control as they come from other orders of government, e.g., why exempt colleges and universities, why charge HST on the MAT (tax on tax), why not have the tourism industry association control all the funds, why not also collect the MAT in restaurants and other places where tourists spend money, why not give the new decision-making body control over 100% of the funds.

Implementation questions.

A number of points were made about implementation, e.g., training, application to on-line booking systems like Air BnB and Expedia, what to do if customers don't want to pay, what about bookings that are already made and a price committed. *Administration will report back with a detailed proposal for implementation of the program prior to implementation of the tax. To support properties in the transition, an FAQ card will be developed for their use with customers who question the tax.*

Twenty-four attendees completed a Municipal Accommodation Tax Survey and their preferences for investment of the net proceeds were as follows:

- Support Festivals, events and new attractions (23%)
- Invest in sport and corporate event bid support and hosting ((21%)
- Enhance marketing of Thunder Bay by expanding reach of current marketing program (19%)
- Financial support programs to incubate new product development (16%)
- Capital investment in large scale community tourism infrastructure (12%)
- Other (8%) (This category included such items as wayfinding, beautification and maintenance of streetscaping features, support for small businesses in tourism, and community issues such as addictions.)

Comments on the survey were similar to those raised in the Q & A period.

Members of the local hotel association have been consulted about a hotel tax over the past nine years including meetings in 2018, 2017, 2015 and 2014.

Tax Rate

Under the Regulation, the municipality has the authority to set the tax rate and effective date. Eleven municipalities contacted including Sudbury, Kenora, and Sault Ste. Marie indicated they expect to implement a 4% tax rate.

It is estimated that there are 48 accommodation providers in Thunder Bay offering approximately 2360 guest rooms in conference hotels, hotels, motels and bed and breakfasts. There are an estimated 75+ Airbnb properties

Performance numbers show Thunder Bay's hotel sector as having a high occupancy rate in Ontario (73.2% vs 69.1% province wide in 2017). The high occupancy rate and strong daily rate average of \$115/night have the potential to generate substantial revenues to enhance tourism promotion and tourism product development that will further increase visitation and increase visitor spending in our community.

FINANCIAL IMPLICATIONS

A Municipal Accommodation Tax at the rate proposed of 4% is estimated to potentially generate approximately \$2 million annually. The revenues would be shared between the municipality and Tourism not-for-profit(s) for tourism promotion, which is defined to include product development.

The revenue could be a catalyst to attract business travelers for more meetings and conventions and participant visitors for additional sports and cultural events. For example, monies from the fund could be used for new or the enhancement of sports or cultural infrastructure that will provide the opportunity to host regional, provincial, national and international events.

The monies from the Municipal Accommodation Tax could be used as private sector investment to leverage provincial and federal funds for infrastructure development with tourism implications.

BACKGROUND

Destination Management Fees (DMF) or a Destination Marketing Tax has been a common revenue tool used globally to support tourism marketing and product development strategies. These funds are often collected through either a percentage or flat monetary fee on transient accommodations (hotels).

In Ontario, prior to December 1, 2017, 29 municipalities had industry led voluntary DMF programs, including Toronto, Ottawa, Niagara Falls and in Northern Ontario, Kenora, Sault Ste Marie and North Bay.

Thunder Bay is one of a number of Municipalities in Ontario that did not have a voluntary Destination Marketing Fee when the new Regulation was enacted on December 1, 2017.

On May 17, 2017, in response to municipalities' request, the Province enacted Bill 127, Stronger, Healthier Ontario Act, 2017, providing single and lower-tier municipalities the authority to levy a transient accommodations tax (hotel tax). The Transient Accommodation Regulation 435/17 came into force on December 1, 2017, and provides the necessary provisions for municipalities across Ontario to implement a Municipal Accommodation Tax (MAT).

The Regulation applies if a municipality imposes a tax in respect of the purchase of transient accommodation in the municipality under section 400.1 of the Act.

The Tourism Thunder Bay Product Development Guiding Document (2017-2021) was approved in principle by Committee of the Whole on November 27, 2017, and ratified on December 4, 2018. The Guiding Document identified that, subject to Council's approval to proceed, the Municipal Accommodation Tax could generate significant funding annually for tourism development support that could include:

- Sport and corporate event bid support and hosting
- Financial capital investments in large scale community tourism infrastructure
- Cultural event development and ongoing support
- Financial support program to incubate new product development

On April 30, 2018, Committee of the Whole authorized Administration to engage with hotels, motels and short-term accommodation stakeholders and the broader business community on options for the implementation of the Municipal Accommodation Tax and report back on the consultation.

CONCLUSION

It is concluded that City Council should approve implementation of a Municipal Accommodation Tax, effective September 1, 2018 as outlined in this Report, and that the rate should be set at 4%.

It is further concluded that Administration should be directed to report back to Committee of the Whole prior to implementation with a detailed proposal for the structure and implementation of the program together with any enacting by-laws.

REFERENCE MATERIAL ATTACHED

None

PREPARED BY: Karen Lewis, Director – Corporate Strategic Services

<p>THIS REPORT SIGNED AND VERIFIED BY: (NAME OF GENERAL MANAGER) Norm Gale, City Manager</p>	<p>DATE: May 25, 2018</p>
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