

Item:



Finance, Administration and Audit Committee

DATE: Wednesday, June 06, 2018

WARD(S): ALL

TITLE: MUNICIPAL ACCOMMODATION TAX (MAT) – A FORWARD PLAN FOR THE CITY OF VAUGHAN

FROM:

Tim Simmonds, Chief Corporate Initiatives and Intergovernmental Relations
Laura Mirabella, Chief Financial Officer and City Treasurer

ACTION: DECISION

Purpose

To provide Committee with information on the Municipal Accommodation Tax (MAT), and to recommend approval of a Consultation Program related to assessing the feasibility and implications of implementing this tax in the City of Vaughan.

Report Highlights

- In 2017, single-tier and lower-tier municipalities in Ontario were granted the powers to implement a Municipal Accommodation Tax (MAT) on transient accommodations, including hotels and short term rentals.
- The Municipal Accommodation Tax (MAT) could represent an estimated \$2.0-2.5 million of annual revenues in Vaughan.
- The MAT is currently being applied in the Greater Toronto Area (GTA), and other parts of Ontario. An industry consensus MAT rate of 4 per cent has been established.
- This report recommends that Council approve a Municipal Accommodation Tax (MAT) Consultation Program to assess the feasibility and corporate implications associated with implementing this tax in the City of Vaughan.

Recommendations

1. THAT, Council approve a Municipal Accommodation Tax (MAT) Consultation Program, as substantially presented in this report, including: market and fiscal assessment, industry engagement, governance options and corporate municipal implications; and
2. THAT, upon completion of the Municipal Accommodation Tax (MAT) Consultation Program staff be authorized to incorporate the findings of the Consultation Program, and proposed recommendations into the 2019 Budget Process.

Background

Legislative Context

Section 400.1 of the *Municipal Act, 2001, S.O 2001, c.25*, provides that the council of a local municipality may pass by-laws imposing a tax in respect of the purchase of transient accommodation within the municipality. Amendments were introduced as part of the 2017 Provincial Budget and received Royal Assent on May 17, 2017.

Ontario Regulation 435/17 (Transient Accommodation Tax) under the jurisdiction of the *Municipal Act* came into force December 1, 2017 allowing single-tier and lower-tier municipalities to levy a Municipal Accommodation Tax.

Economic Development Context

Municipal Accommodation Tax (MAT) applies to the Tourism Industry. Specifically, MAT applies to the rooms sold for overnight accommodation and/or short term rentals with continuous stays of 30 days or fewer. Expenses related to food and beverages, room service, parking, laundry services, internet access and meeting room rentals are excluded from the MAT. Other exemptions are included in the amended legislation, and regulation.

Tourism is a key economic driver in Vaughan. Visitor attractions, such as Canada's Wonderland, McMichael Canadian Art Collection, Legoland, Vaughan Mills, as well as sports tournaments generate positive economic impacts. Travel by business and visiting friends and relatives (VFR) represent other key segments of Vaughan's tourism industry.

Accommodations and food services account for 5.7 per cent of all employment, and represents the fifth largest industry sector in Vaughan. Currently, there is not a Vaughan specific hotel association, and a Destination Marketing Program (DMP) does not exist in Vaughan.

Vaughan's twelve hotel properties offer 1,724 rooms. According to Smith Travel Research, Vaughan's representative sample set of properties accounted for a total of 523,045 available room nights. In 2017, Vaughan's hotel properties had an 80.6 per cent occupancy level, equivalent to 421,385 occupied room nights at an average rate of \$149.75 per room per night.

Revenue Sharing Formula

Ontario Regulation 435/17 outlines revenue sharing formulas based on whether a Destination Marketing Program (DMP) exists in a municipality on the day before the MAT comes into effect. A Destination Marketing Program (DMP) does not currently exist in Vaughan.

Therefore, according to the Transient Accommodation Tax regulation if a DMP does not exist on the day before the tax comes into effect, the municipality must annually remit at least 50 per cent of the revenue, minus reasonable administrative costs for the fiscal year, to a non-profit tourism entity for tourism marketing.

Use of the municipal portion of the tax proceeds, that is the remaining 50 per cent of MAT revenues, may be allocated to municipal programs and services determined by Council through the annual budget process.

Based on 2017 statistics, and applying the current industry consensus tax rate of 4 per cent, Vaughan could potentially generate \$2.0 to 2.5 million per year from hotel providers. With the addition of motels, bed and breakfast accommodations and online private, short term accommodations, and factoring in growth from proposed new hotel developments (more than 1,000 new rooms), potential revenue could be higher. However, these market and fiscal estimates will be validated by an external professional services firm that specializes in the hospitality and accommodation industry retained by the City.

Short Term Rentals and Online Home Sharing Services

The City of Vaughan is currently undertaking a Short-Term Rentals Study to determine the feasibility and implications of regulating this industry. The current zoning and licensing regulations do not permit short term rentals and online home sharing platforms in Vaughan. This study is anticipated to be completed in the second quarter of 2019. Implications related to a MAT on short term rentals and online home sharing services is a key consideration of the Consultation Program proposed in this report. As stated below, coordinating this Study with the MAT Consultation Program is an intended outcome.

Previous Reports/Authority

Ontario Municipal Act, Section 400.1 of the Municipal Act, 2001, S.O 2001, c.25
<https://www.ontario.ca/laws/statute/01m25>

Ontario Regulation 435/17: Transient Accommodation Tax
<https://www.ontario.ca/laws/regulation/170435?search=litigation+guardian>

Analysis and Options

Several municipalities in the Greater Toronto Area (GTA) have approved MAT By-law(s), namely: City of Toronto (4 per cent), Mississauga (4 per cent), and on May 1, 2018 the City of Markham approved a 4 per cent MAT-Hotels effective January 1, 2019, and a 4 per cent MAT-Short Term Rentals (effective date to be determined). Other GTA communities are considering a Municipal Accommodation Tax, including the Town of Richmond Hill and the Town of Oakville. In other parts of Ontario, Ottawa, London, Windsor, Sudbury, Niagara Falls have implemented, or are considering an accommodation tax. The valuable ground-work completed by these municipalities will help the City of Vaughan assess the feasibility and implications of implementing a MAT. As an example, the industry consensus on a 4 per cent tax rate; governance models considered for a non-profit tourism entity; and tax collection, auditing, enforcement, allocation of revenues, short term rentals are important elements that have been considered by other municipalities.

The following Consultation Program is recommended.

Purpose of Consultation Program:

To inform Council on the feasibility and impacts associated with a Municipal Accommodation Tax (MAT) in Vaughan, a Consultation Program is recommended to address:

1. Market & Fiscal Indicators
2. Stakeholder Feedback
3. Governance Options Associated with a Potential Non-Profit Tourism Entity
4. Corporate Municipal Impacts (financial, administrative, legal, licensing, bylaw enforcement, economic development, other)

Network of Stakeholders Related to MAT:

1. Municipality (Council; Departments): Role is to approve, administer and enforce MAT By-law(s).
2. Providers (hotels, motels, B&B, short-term rentals, online platforms, other): Role is to collect the MAT from purchasers, and remit the MAT to the municipality.

3. Industry and Business Associations, Chamber of Commerce: Role is to be a policy adviser to, and on behalf of, providers/members.
4. Regional Tourism Organization (RTO#6): Responsible for tourism promotion in York Region, Durham Region and Headwaters.
5. Purchasers of Transient Accommodation: Tax payer, primarily visitors.

Intended Outcomes of Consultation Program:

At the end of the proposed Consultation Program, staff will be able to:

1. Define the transient accommodation market in Vaughan in terms of scope, breadth and range.
2. Determine current and future tax revenue potential, on an annual basis, within the Vaughan transient accommodation marketplace (i.e., hotels and short-term rentals).
3. Analyze, assess, interpret and communicate feedback received from stakeholders.
4. Demonstrate alignment and linkages with the Vaughan Short Term Rental Study.
5. Explain municipal administrative requirements and implications associated with the implementation of a MAT in Vaughan, including: collection, audit, enforcement, licensing, revenue sharing with non-profit tourism entity, revenue allocation process, legal agreements, and other as required.
6. Describe governance options and articulate the municipal role in delivering local tourism promotion services.
7. Propose policy and by-law recommendations to Council.

Key Milestones:

- May 9, 2018: CMT approval to prepare a Staff Report
- June 6, 2018: Staff Report to FAA Committee, re: Consultation Program
 - Q3 2018: Consultation Phase
 - Q4 2018: Status Report to 2019 Budget Process
 - 2019: Effective Start Date of MAT By-law(s), subject to Council approval

Financial Impact

Costs associated with the proposed Consultation Program shall be funded by the approved 2018 Economic and Cultural Development Department operating budget. The estimated budget impact is \$15,000 for professional fees.

Broader Regional Impacts/Considerations

In addition to engaging local stakeholders stated above, these organizations in the GTA shall be informed and/or consulted:

- York Region Economic Development and partners. This organization has a tourism promotion mandate that involves regional serving entities, such as York Region Arts Council (YRAC).
- City of Markham, City of Mississauga and the City of Toronto recently completed consultations like the one proposed in this report.
- Regional Tourism Organization #6 has a mandate to promote tourism in the area known as: Central Counties (Durham and York Region, and Headwaters).
- The Greater Toronto Hotel Association, and other regional industry associations, participated with other municipalities on their respective MAT consultations.

Conclusion

In conclusion, staff are requesting Council authorization to initiate a Consultation Program designed to assess the feasibility and implications of a Municipal Accommodation Tax (MAT) in the City of Vaughan; and, to report the findings and proposed recommendations in concert with the 2019 Budget process.

Attachments

None.

Prepared by

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