

Item:



Finance, Administration and Audit Committee Report

DATE: Monday, January 21, 2019

WARD(S): ALL

TITLE: MUNICIPAL ACCOMMODATION TAX

FROM:

Tim Simmonds, Interim City Manager

Michael Coroneos, Chief Financial Officer and City Treasurer

Nick Spensieri, Deputy City Manager, Corporate Services

ACTION: DECISION

Purpose

To seek Council approval to implement a Municipal Accommodation Tax (MAT) and a related by-law to levy a four per cent (4%) tax applicable to all hotels, motels, campgrounds, bed and breakfast organizations, and future short-term rental (STR) accommodations operating in the City of Vaughan. Secondly, to establish a new destination marketing organization (DMO) with the focus of promoting economic growth in Vaughan's transient accommodation and tourism industry.

Report Highlights

- In 2017, the Ontario Government passed legislation allowing municipalities in Ontario to collect a Municipal Accommodation Tax to undertake tourism-related activities.
- The MAT is a levy that is applied to overnight stays at accommodations including: hotels, motels, campgrounds, bed and breakfast organizations and short-term rentals.
- The growing tourism accommodation industry in Vaughan contributed \$300 million to the City's GDP in 2018 and employs about 12,000 people.
- Implementing a MAT will contribute to the growth and expansion of Vaughan's accommodation and tourism industry.
- One-on-one consultations with industry stakeholders and non-profit organizations in the Vaughan marketplace occurred during November 2018.
- Fifty percent (50%) of the MAT revenues is proposed to be shared with an eligible tourism destination marketing organization (DMO), and the other fifty per cent (50%) to be used at the discretion of Council.
- A Municipal Services Corporation (MSC) is proposed to be created with the sole purpose of operating as the tourism destination marketing organization for the City of Vaughan.

Recommendations

1. That a four per cent (4%) Municipal Accommodation Tax (MAT) be implemented for paid overnight accommodations at hotels, motels, campgrounds, bed and breakfast organizations operating in the City of Vaughan, effective April 1, 2019;
2. That a four per cent (4%) Municipal Accommodation Tax (MAT) be implemented for short-term rental (STR) providers (including online home sharing platforms) operating in the City of Vaughan, subject to Council's future direction on short-term rentals;
3. That a new reserve fund "Municipal Accommodation Tax" be established for the financial sustainability management of the MAT revenues;
4. That the Chief Financial Officer and City Treasurer be authorized to make one or more payments in each fiscal year to one or more eligible tourism promotion entities, the total of which be equal to fifty per cent (50%) of Municipal Accommodation Tax revenue collected, net of a reasonable collection and administration fee;
5. That the City Clerk be authorized to enter into an agreement with each eligible tourism entity respecting the financial accountability required to ensure that all Municipal Accommodation Tax amounts paid to the eligible tourism entity are used for the exclusive purpose of promoting tourism as required by Ontario Regulation 435/17;

6. That the City's portion of the Municipal Accommodation Tax revenue be directed to support investments, such as Vaughan-based placemaking, beautification, infrastructure and communications programming that support citizen/visitor/guest experience and tourism-related services, infrastructure development and services-in-kind for tournaments and other events using city assets, subject to the annual budget approval process;
7. That staff take all steps necessary to create a Municipal Services Corporation (MSC) pursuant to the Ontario *Municipal Act*, requirements of Ontario Regulation 599/06, and other applicable legislation and regulations in the Province of Ontario, and Canada; and, that the Municipal Services Corporation be called "Tourism Vaughan" with objectives of promoting tourism in the City of Vaughan; and, that The Corporation of the City of Vaughan serve as the sole shareholder of the Municipal Services Corporation; and, that the following executive positions be approved to serve as the start-up Board of Directors of the Municipal Services Corporation: City Manager (or designate), Chief Financial Officer (or designate), Chief of Corporate Initiatives and Intergovernmental Relations (or designate) and one member of Council;
8. That a by-law be brought to a future Council meeting to establish the City of Vaughan Municipal Accommodation Tax (Hotels/Motels), effective April 1, 2019; and
9. That the City Clerk, City Solicitor, Chief Financial Officer and Chief of Corporate Initiatives and Intergovernmental Relations and his or her designate be authorized and directed to take all actions to give effect to these resolutions.

Background

In April 2017, the Province of Ontario passed Bill 127: *Stronger, Healthier Ontario Act* (Budget Measures) 2017, which amended the *Municipal Act* (the "Act") to provide lower or single tier municipalities in Ontario with the authority to levy a transient accommodations tax. Bill 127 received Third Reading and Royal Assent on May 17, 2017.

On November 23, 2017, the Province of Ontario issued the Transient Accommodation Regulation 435/17 (the "regulation"), which came into effect on December 1, 2017 and provides the necessary provisions for municipalities across Ontario to implement a mandatory Municipal Accommodation Tax for transient accommodations through a by-law, including setting the tax rate applicable to transient accommodations.

Council approved Item 10 of Report No. 6 of the Finance, Administration and Audit Committee, *Municipal Accommodation Tax (MAT) – a Forward Plan for the City of Vaughan* which directed staff to undertake a Consultation Program related to assessing the feasibility and implications of implementing this tax in the City of Vaughan; and to

report back on the findings of the consultation program and proposed recommendations for the 2019 Budget Process.

The Economic and Cultural Development Department completed a jurisdictional scan to determine which Ontario municipalities had implemented the MAT. At this time, fifteen municipalities have passed by-laws to implement the tax, including municipalities in the following municipalities in the Greater Toronto Area: Mississauga, Toronto, Markham, and Oakville. The valuable groundwork established by these municipalities has helped the City of Vaughan assess the feasibility and implications of implementing a MAT. For example, the industry consensus on a four per cent tax rate; governance models considered for a non-profit tourism entity; tax collection, auditing, enforcement, allocation of revenues, and short-term rentals are important elements that have been considered by other municipalities.

Short-Term Rental Accommodations (STR)

Currently the City of Vaughan does not specifically permit short-term rentals. Zoning By-law 1-88, as amended, permits a building or part of a building used for the purposes of providing temporary sleeping accommodation to the public only within a hotel. In parallel with the Comprehensive Zoning By-law review, staff is currently undertaking an in-depth study of short-term rentals and will be bringing forward recommendations to Council on options and a preferred approach in 2019.

Previous Reports/Authority

Council's previous consideration of this matter can be found at the following link:
[Item 10 of FAA Report 6: Municipal Accommodation Tax \(MAT\) - A Forward Plan for the City of Vaughan](#)

Analysis and Options

Strategic Alignment

This initiative aligns with key service priorities of the City of Vaughan including job creation and investment, good governance, and financial sustainability.

Projected Revenue Potential

Through the jurisdictional scan, it was determined that all municipalities participating in the MAT adopted a four percent (4%) rate for both hotels and STRs. In considering what a potential rate in Vaughan could be, the legislation does provide latitude for municipalities to set any rate. However, from a competitiveness and clarity standpoint, complying with the industry consensus rate creates a level playing field to not disadvantage Vaughan properties relative to other markets. Furthermore, a common

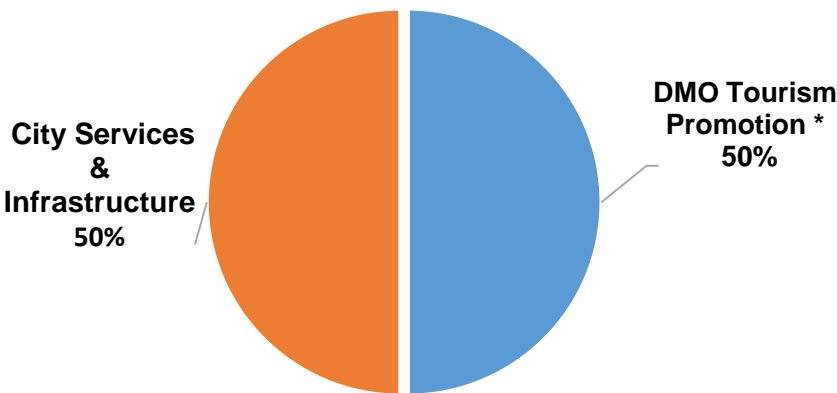
rate simplifies corporate contract negotiations and the collection and remittance process for hotel ownership groups that have properties across multiple jurisdictions.

In August 2018, staff retained CBRE Travel and Leisure Group (CBRE) to complete a Market Assessment of a municipal accommodation tax for Vaughan. The market assessment considered the historic performance of Vaughan's 16 hotels and motels, and 230+ short-term rentals (entire home properties for 2018), as well as new properties entering the market in the next five years. Based on CBRE's analysis, a four per cent accommodation tax applied to hotels and short-term rentals has been projected to generate \$2.4 million in 2019 (assuming an effective date of April 1, 2019), increasing to \$4.4 million by 2023, representing a 33% growth. A copy of the CBRE report has been included in this report (Attachment 1).

MAT Revenue Sharing

Regulation 435/17 prescribes that municipalities without a Destination Marketing Fee, like the City of Vaughan, are required to share at least 50% of the MAT revenue, net of reasonable costs of collecting and administering the tax, with one or more 'eligible tourism entities' (Table 1). Any eligible tourism organization which is provided revenue from MAT is required to use the funds for the exclusive purpose of promoting tourism which also includes development of tourism products.

Table 1: MAT Revenue-Sharing Model



** Less reasonable costs for collecting and administering the tax*

Applying the revenue-sharing formula to the potential MAT revenue, the partial year impact for 2019, based on an April start date, could be up to \$2.4 million, with \$1.2 million shared with an eligible tourism entity and the same amount may be retained by the municipality.

City's Portion of Revenue

The City's portion of the revenue is unrestricted. Based on the discussions with stakeholders, they prefer to see the funds allocated to City services and infrastructure that support the tourism industry by enhancing visitor and guest experience. Examples could include: capital improvements to City-owned indoor and outdoor facilities/open spaces, repairs, wayfinding, beautification activities and new construction of tourism-related facilities, communication programs and services-in-kind provided for tournaments and events using city assets.

Collection and Remittance of the MAT

MAT revenues are remitted by transient accommodation providers to the City on a monthly basis. Regulation requires the City to collect 100% of the MAT revenues and transfer at least 50% to a new destination marketing organization (DMO). The administration and implementation of the MAT will be handled by internal staff.

Communication Plan

Prior to commencing the industry consultation process, Strategic and Corporate Communications staff prepared a comprehensive communication plan, which included identification of audiences, key messages and tactics. The communication plan represented all phases of this project from industry engagement to implementation of the MAT.

Industry Consultation

E-mail or letter invitations for in-person or teleconference meetings were delivered to the owners and/or management of the sixteen (16) hotels and motels within Vaughan, Airbnb representatives, as well as five (5) non-profit business associations that are involved directly or indirectly with tourism in Vaughan.

During November 2018, staff of the Economic and Cultural Development and Finance Departments met with the above stakeholders regarding the implementation of a four per cent (4%) Municipal Accommodation Tax. The Vaughan Chamber of Commerce also hosted a hotel/motel industry roundtable meeting. To facilitate the discussion, staff provided each representative with a copy of the presentation (Attachment 2) that provided an overview of the MAT, legislative background information, proposed administration process, proposed use of funds and next steps.

Industry Feedback

Staff facilitated constructive and positive discussion with all stakeholders. Although the MAT is a new tax, the industry recognized the business development and marketing opportunities that a new revenue source presented. The dedicated funding for

Vaughan-only tourism promotion, focused on promoting overnight stays, allowed stakeholders to envision future revenue-enhancing projects.

Below is a summary of the industry feedback.

1. Introducing a MAT in Vaughan

Given the municipal accommodation tax has become more prevalent in Ontario, including the Greater Toronto Area since 2017, there was consensus amongst industry stakeholders in support of implementing a Vaughan-based MAT, provided:

- The tax revenue is reinvested in Vaughan for the promotion of overnight stays
- The MAT rate be set at four per cent (4%) consistent with Mississauga, Toronto, Markham, Oakville and other jurisdictions in Ontario
- The MAT be applied to short-term rentals (e.g., online home sharing platforms) in the future
- The hotel/motel industry (including business associations) have a strong voice in shaping the business development and marketing plans or activities of the new DMO. Suggestions included directing strategies in the hotel/motel shoulder and low season
- The overall competitiveness of Vaughan's accommodation industry be positively impacted
- The unencumbered revenues available at Council's discretion be invested in tourism-related city services and infrastructure to enhance visitor/guest experience
- All stakeholders expressed an interest to be kept informed of the Council approval process and implementation process
- Openness, transparency and accountability of the DMO
- All marketing strategies be applied on a City-wide basis benefitting all districts/geographies in Vaughan

2. Other suggestions and feedback:

- The new Vaughan DMO include in its plan, strategies to drive overnight stays during shoulder and low seasons such as attracting more weekend sports tournaments, new multi-day festivals and events; and corporate conventions and meetings.
- All marketing strategies be focused on a city-wide basis benefitting all properties.
- The business development and marketing activities of the new DMO complement the marketing strategies of tourism operators that promote day trips (such as Canada's Wonderland), and the internal marketing strategies for corporate banners.
- That the City's portion of the MAT revenues be invested in recreation centres, parks/sports fields, beautification, wayfinding, new tourism products such as City-run festivals and events and leveraging the City's communication channels in support of the tourism industry.

- The City consider allocating more than 50 per cent (50%) of the MAT revenue to the DMO.
- From a timing perspective, the City consider a later than April 1 start date to allow for corporate contracts to be renewed with the MAT included
- That the hotel industry has a voice in the DMO through its board of directors or strategic advisory committee to provide expertise and guidance with respect to business development and marketing programs. Furthermore that the composition of the strategic advisory committee be weighed towards hotel operators rather than tourism venues.
- Complaints from customers may occur. Request to the City to provide key messages and contact information.
- Not all of Vaughan's neighbours have implemented MAT, namely Brampton and Caledon thereby potentially creating an uncompetitive playing field in the short-term.
- Independent accommodation providers were concerned with absorbing the incremental implementation costs of collection and remittance. A quarterly remittance to the City is preferred.
- While a province-wide regulatory issue, staff heard concerns about the HST being charged on the four per cent (4%) MAT.
- Concern that the unencumbered City portion of the MAT revenues shall not benefit the accommodation/tourism industry.
- The lag between the collection of the MAT-Hotels and the MAT-Short-Term Rentals.

Governance Options for a Tourism Promotion Entity

Regulation 435/17 requires that at least fifty per cent (50%) of the revenues less reasonable administration costs, be dedicated to tourism promotion and development of tourism products by an eligible tourism entity. Under the Province's definition, an eligible tourism entity means a non-profit entity whose mandate includes the promotion of tourism in Ontario or in a municipality. Staff explored three options for an eligible tourism entity: an internal City department; Central Counties Tourism (Regional Tourism Organization 6); and a new Municipal Service Corporation.

In the City department scenario, staff considered establishing a destination marketing business unit within the Economic and Cultural Development Department. However, detailed discussions with Ministry staff indicated that a municipal department does not qualify as an eligible tourism entity since a department does not have a separate governance structure and tourism promotion mandate independent from the municipality.

In considering the Central Counties scenario, there are advantages and disadvantages. Operating since 2010, Central Counties is an experienced tourism promotion organization with a service area that includes York and Durham Regions and the Hills of the Headwaters areas. Their core services are focused on general awareness

marketing across the regions they serve, with emphasis on visitor attraction, including day trips to tourism venues. This broad geographic area, and their general awareness marketing mandate makes managing a Vaughan-only business development and marketing function more challenging.

The third scenario included establishing a Municipal Service Corporation. It was determined that a Municipal Services Corporation would meet the Ontario MAT regulation for an eligible tourism entity, i.e. a non-profit entity whose mandate includes the promotion of tourism in a municipality. Under Ontario Regulation 599/06 governing Municipal Services Corporations, a business case must be prepared and submitted for ministry approval prior to registration as a corporation.

As well, staff shall fulfill the following requirements pursuant to Regulation 599/06:

Next Steps for Establishing a Municipal Services Corporation in Vaughan

In order to proceed with the establishment of a Municipal Service Corporation which is proposed to operate as the City of Vaughan's new destination marketing organization and be funded through fifty per cent (50%) of MAT revenues, an application must be made by the City of Vaughan to the Province of Ontario to incorporate a non-share capital corporation under the Corporations Act.

The application for incorporations must include the following information.

- Name of the Corporation
- Address of the Head Office
- First Directors
- Objectives of the Corporation
- Special Provisions

Staff requests authorization from Council to submit the application for incorporation with the information as follows:

- Name of the Corporation: Tourism Vaughan, or successor name as approved by Council.
- Address of the Head Office: 2141 Major Mackenzie Drive, Vaughan, Ontario
- First Directors: the initial incorporation including a transitional board comprised of the City Manager (or designate), Chief Financial Officer (or designate), Chief Corporate Initiatives and Intergovernmental Relations (or designate) and one member of Council.
- Objectives of the Corporation
 - To develop and implement multi-year business development and marketing plans, in collaboration with industry stakeholders, that address

- Vaughan's goals as a tourism destination, including the promotion of overnight stays in Vaughan-based transient accommodations
 - To support and facilitate growth of the local tourism sector by identifying and promoting opportunities to attract strategic investments and new infrastructure that generate positive economic impacts in Vaughan
 - To conduct targeted economic and market research for purposes of identifying growth opportunities and developing competitive strategies
 - To facilitate marketing collaborations amongst Vaughan's tourism industry stakeholders.
- Special provisions:
 - The corporation shall be carried on without the purpose for gain for its members, and any profits or other accretions to the corporation shall be used in promoting its objects.
 - A Strategic Advisory Committee shall be established comprising of members of Vaughan's accommodation industry and non-profit organizations such as the Vaughan Chamber of Commerce to provide expertise and guidance on business development and marketing initiatives.

Financial Impact

Costs associated with the consultation program (i.e., staff-time, market assessment) have been funded by the approved 2018 Economic and Cultural Development Department's operating budget.

A four per cent (4%) municipal accommodation tax rate applied to hotels and short-term rentals has been projected to generate \$2.4 million revenues in 2019 (April to December), increasing to \$4.4 million full year revenue by 2023. City's retained portion of the MAT revenue will be directed to support investments in Vaughan-based infrastructure and initiatives that support citizen/visitor/guest experience and tourism-related development, subject to the annual budgeting process.

Broader Regional Impacts/Considerations

During the industry consultation process, staff consulted with regional organizations including: Central Counties Tourism, York Region Arts Council, Markham Richmond Hill Vaughan Chinese Business Association, the Greater Toronto Hotel Association and Vaughan Chamber of Commerce. A copy of this report shall be forwarded to all stakeholders and the Ministry of Tourism, Culture and Sport.

Conclusion

In conclusion, staff recommend the approval of a MAT in Vaughan and establishing a

destination marketing organization to support the growth of Vaughan's accommodation and tourism industry.

For more information, please contact Dennis Cutajar, Director of Economic and Cultural Development at ext. 8274.

Attachments

1. Vaughan Market Assessment of Municipal Accommodation Tax Revenue
2. Focus on Vaughan Accommodation Industry: New DMO and MAT presentation

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