# CITY OF HAMILTON
## PLANNING AND ECONOMIC DEVELOPMENT DEPARTMENT
### Tourism and Culture Division

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| **TO:** | Mayor and Members<br>General Issues Committee |
| **COMMITTEE DATE:** | January 15, 2020 |
| **SUBJECT/REPORT NO:** | Municipal Accommodation Tax (PED20009) (City Wide) |
| **WARD(S) AFFECTED:** | City Wide |
| **PREPARED BY:** | Carrie Brooks-Joiner (905) 546-2424 Ext. 3967 |
| **SUBMITTED BY:**<br><br>**SIGNATURE:** | Carrie Brooks-Joiner<br>Director, Tourism and Culture<br>Planning and Economic Development Department |

**RECOMMENDATION**

That staff be directed to develop the structure and implementation plan for a Municipal Accommodation Tax Program in Hamilton at 4% including the required business case study, and creation of a Municipal Services Corporation (MSC), which will operate as the City of Hamilton's eligible tourism entity to receive funds from the Municipal Accommodation Tax (MAT) as required by Provincial regulation, enacting by-law and any necessary agreements, and report back to the General Issues Committee.

**EXECUTIVE SUMMARY**

In November 2017, the Province of Ontario issued Ontario Regulation 435/17 Transient Accommodation Tax, which came into force on December 1, 2017. This legislation allows municipalities across Ontario to implement a Municipal Accommodation Tax if they so choose. The potential revenue in Hamilton, based on a 4% tax, and the taxing of overnight stays at hotels, motels, and bed and breakfasts is approximately $2 M. Once projected new hotels are operational and short-term rentals are licenced and added to the MAT, approximately an additional $1 M is projected for a total of $3 M in annual revenue.

Among the requirements to implement a MAT in Hamilton are a by-law and the identification of an eligible not-for-profit tourism organization to receive dollars for tourism development.

Hamilton currently has a tourism industry-led Destination Marketing Fee (DMF) which levies a 3% fee on overnight stays at participating hotels. Annual revenues are approximately $800 K of which 100% is invested (in partnership with the City of Hamilton) in local tourism development; priorities are bid fees and sales initiatives.

While both the MAT and a DMF can co-exist, it is not ideal for the consumer and duplicates the collection function. A single legislated based tax is rapidly becoming the industry standard in Ontario.

**Alternatives for Consideration – Not Applicable**

**FINANCIAL – STAFFING – LEGAL IMPLICATIONS**

**Financial:** Implementation of a Municipal Accommodation Tax will result in approximately $2 M in annual new revenue to the City of Hamilton based on current accommodation stock and performance. An additional $1 M in annual revenue is anticipated following the addition of projected new hotel builds and licenced short-term rentals to the MAT.

**Staffing:** N/A

**Legal:** Legal Services will be required to:

(i) develop an enacting by-law to allow for the collection of the Municipal Accommodation Tax; and,

(ii) assist with the development of the business case study with regards to the MSC;

(iii) propose a detailed MSC governance structure and prepare documents ancillary thereto; and,

(iv) assist with the development of the structure and implementation plan for the Municipal Accommodation Tax.

## HISTORICAL BACKGROUND

### Background Destination Marketing Fee Programs

Destination Marketing Fees are a common revenue tool used globally to support tourism marketing and product development strategies. Revenue is collected through either a percentage or flat monetary fee on transient accommodations (hotels, motels and bed and breakfasts). In Ontario, the collection models are industry led and participation is voluntary.

Planning for a Destination Marketing Fee Program in Hamilton began in 2016 based on a recommendation in the Council-approved Tourism Strategy. Hamilton's industry led DMF program launched January 1, 2018. There are five participating hotels and the Hamilton Convention Centre participates on a flat fee basis. The fee to the consumer is 3%. The Ontario Restaurant Hotel and Motel Association is contracted to manage and provide stewardship for the collected dollars. The participating partners, known as the Hamilton Tourism Development Investment Group, is the decision-making body for the investment of available dollars.

In 2018, $783,611 in fees were collected and $565,000 was invested, in collaboration with the City of Hamilton, into major event bid fees, tourism sales and marketing initiatives; 100% of collected dollars are designated towards local tourism development.

## POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

Ontario Regulation 435/17 Transient Accommodation Tax provides municipalities with the authority to implement a Municipal Accommodation Tax by enacting the appropriate by-laws. The Regulation includes requirements regarding revenue sharing for tourism development.

The development of this revenue stream is consistent with the objectives of the City's Investment Strategy.

Licencing and taxing of short-term rentals are required to meet revenue projections.

## RELEVANT CONSULTATION

### Internal

General Manager, Planning and Economic Development Department

General Manager, Corporate Services Department

Deputy City Solicitor, Legal Services, Legal and Risk Management Services, Corporate Services Department

Director, Financial Planning Administration and Policy, Corporate Services Department

Manager, Finance and Administration, Financial Planning Administration and Policy, Corporate Services Department

Manager, Procurement, Financial Services and Taxation, Corporate Services Department

**External**

Advisor, Ministry of Heritage, Sport, Tourism, Culture Industries

President and CEO, Ontario Restaurant Hotel and Motel Association

**ANALYSIS AND RATIONALE FOR RECOMMENDATION**

**Municipal Accommodation Tax**

On May 17, 2017, in response to municipalities' request, the Province enacted Bill 127, Stronger, Healthier Ontario Act, 2017, which included allowing single and lower-tier municipalities the authority to levy a transient accommodations tax (commonly referred to as the Municipal Accommodation Tax (MAT)). Ontario Regulation 435/17 Transient Accommodation Tax came into force on December 1, 2017. Since that time the number of municipalities which have implemented a MAT has increased steadily and include, among others:

- Barrie
- Brockville
- London
- Markham
- Marathon
- Mississauga
- Niagara Falls
- Oakville
- Ottawa
- Peterborough
- Sault St. Marie
- Sudbury
- Timmins
- Toronto
- Thunder Bay
- Windsor

Typically, in municipalities where there was a DMF, it has been replaced by the MAT.

### Application of Municipal Accommodation Tax

Municipal Accommodation Tax, as per the legislation, applies to all room revenue sold for overnight accommodation under 30 days at hotels, motels, resorts, inns, bed and breakfasts and individual accommodators using a common platform marketplace.

Exemptions include campsites and campgrounds, university and college residences, hospitals, long-term care homes and hospices. Revenues generated from other hotel services such as meeting room rentals, food and beverage and room services are also excluded from the MAT.

### Tax Rate

The Regulation gives the municipality the authority to set the tax rate and effective date. Typically, this is 4% in Ontario and aligns with the average previous DMF level across the province.

### Potential Revenue

In Hamilton, the estimated annual revenue is about $2 M based on the current estimated number of available rooms (hotel, motel, bed and breakfasts), the average 2018 hotel occupancy statistics, average room rate and a MAT rate of 4%. The anticipated additional 500+ hotel rooms announced in planned developments, and the licencing and addition of short-term rentals to MAT, will increase revenues by an additional $1 M (approximately).

The projection of revenue assumes continued performance levels and does not factor in future anticipated growth in short-term rentals.

### Revenue Collection

Under Ontario Regulation 435/17, municipalities have the authority to determine who collects and administers the MAT revenue. Ontario Regulation 435/17 also allows municipalities to enter into an agreement with a person or entity to collect the tax on a municipality’s behalf. It would be at the discretion of the local municipality’s Council to design the MAT. The legislation stipulates that municipal by-laws implementing a MAT must meet certain requirements including, among other items, setting out the manner with which the tax would be collected.

### Revenue Sharing

Ontario Regulation 435/17 requires a 50/50 revenue sharing between a municipality and an “eligible tourism entity”, which is defined in Ontario Regulation 435/17 as a non-profit entity whose mandate includes the promotion of tourism in Ontario or a municipality.

For municipalities in which a destination marketing program exists, the revenue sharing must be equal to or greater than the DMF revenues from the previous year. Where no formal DMF exists, at least 50% of the revenues from the MAT less the municipality's reasonable costs of collecting and administering the tax must be shared with an eligible tourism entity.

Once total annual revenues are at a level of $2.5 M, sharing the required 50% of revenue would provide the City of Hamilton the opportunity to remove tourism operating expenses 100% from the levy; the remaining 50% would be sufficient to offset the annual average draw on multiple reserves for tourism activities and the existing DMF contribution.

**Incorporation of a Municipal Services Corporation**

Hamilton does not currently have the required eligible tourism entity mandated by Ontario Regulation 435/17. Creation of a Municipal Services Corporation will satisfy provincial requirements.

Prior to creation of the Municipal Services Corporation, Ontario Regulation 599/06 requires municipalities to conduct public consultation and develop a business case study.

## ALTERNATIVES FOR CONSIDERATION

N/A

## ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN

**Community Engagement and Participation**
Hamilton has an open, transparent and accessible approach to City government that engages with and empowers all citizens to be involved in their community.

**Economic Prosperity and Growth**
Hamilton has a prosperous and diverse local economy where people have opportunities to grow and develop.

**APPENDICES AND SCHEDULES ATTACHED** – N/A

CBJ:ac