



MANAGEMENT REPORT

Date: February 10, 2020
To: Mayor and Members of Council
From: Tatiana Dafoe, Acting Clerk
Report#: COU20-005
Attachments: N/A

Title: Municipal Accommodation Tax – Next Steps

Objective: To provide clarification on the Municipal Accommodation Tax (MAT), next steps and proposed timeline for pursuing implementation.

Background: At the August 12, 2019 Finance and Labour Relations Committee meeting, Stratford Tourism Alliance presented the Q2 2019 Financial Update. As a result of discussions on the existing Destination Marketing Fee, staff were directed to prepare a report on options for mandatory participation in the program and fee remittance.

At the November 4, 2019 meeting, the Committee received a report outlining options for the development of a MAT and directed staff to prepare a follow-up report outlining next steps.

Analysis:

1. Next Steps: Use of Funds, Exemptions, Administration, Timeline & Stakeholder Consultation

Use of Municipal Accommodation Tax Funds:

MAT funds must be shared (50/50) in accordance with Ontario Regulation 435/17 (Transient Accommodation). In the case of the City of Stratford, the only eligible not-for-profit entity that can receive 50% of the MAT funds collected is the Stratford Tourism Alliance (STA).

The MAT revenues forwarded to the STA must be used for the “promotion of tourism”, “promoting tourism” and “development of tourism products”. For example, revenues

from the MAT could be used for the advancement of their tourism strategic plan. The remaining municipal portion of the MAT revenue is not restricted by the Regulation.

It is anticipated that revenue collected from a MAT will be variable from year to year (dependent on economy and number of tourism events that take place). At this time, the municipal contribution to the STA operating budget (core funding) is collected through municipal property taxes. Replacing this core funding with anticipated MAT funds (which are variable from year to year) may put the annual funding at risk. Therefore, it is recommended that the STA's MAT revenues continue to be budgeted separately from the STA core funding. This will mitigate any annual fluctuations until revenue generation is known. Changes to the STA's core annual operating funding would be considered after there is historical experience with the annual MAT revenue.

Likewise, the municipal portion of the MAT revenue would be variable from year to year. In the short term, it is recommended that the City's portion of the MAT revenues be placed in a reserve fund.

Exemptions from Collecting the Municipal Accommodation Tax:

Under the Regulation, some accommodators are exempt. The Regulation exempts "a university or college of applied arts and technology or post-secondary institution". In addition, MATs are not applied to other hotel services (meeting room rentals, food & beverage, etc.).

Municipalities also have an option to pass a by-law exempting additional accommodators. Unless exempt by the Regulation or a City of Stratford by-law, all accommodators within City boundaries will be obligated to collect and remit the MAT on all rooms sold for overnight/short term accommodation.

Municipalities that have enacted a MAT have also passed by-laws exempting additional accommodators from participation. Examples of accommodators that have been exempted are:

- Accommodators that are renting for 30+ consecutive nights (including seasonal trailer parks);
- Hospitals, long-term care homes and treatment centres;
- Every house of refuge or lodging for the reformation of offenders;
- Every charitable, non-profit philanthropic corporation organized as shelters for the relief of the poor or for emergency;
- Every tent or trailer sites supplied by a campground, tourist camp or trailer park;
- Every accommodation supplied by employers to their employees in premises operated by the employer;
- Every hospitality room in an establishment that does not contain a bed and is used for displaying merchandise, holding meetings or entertaining;

- Short-term rentals and entities listed on internet platforms such as Airbnb and other accommodation sharing apps;
- Traditional Bed & Breakfast operators which have been given the opportunity to apply to the local municipality for an exemption from charging and remittance of the MAT, provided that the application sufficiently meets the municipality's eligibility criteria;
 - Namely the bed and breakfast establishment meets the definition of the local Zoning By-laws;
 - The bed and breakfast establishment is occupied and operated by the property owner, and is classified in the residential property tax class;
 - The accommodation purchases are invoiced by the bed and breakfast establishment and not a third-party home-sharing listing entity.

It is important to note that short-term rentals offered by homeowners are not exempt from the MAT Regulations. However, the nature of the accommodation-sharing industry (such as Airbnb) makes tracking and collecting the tax from owners very challenging.

Staff recommend undertaking public consultation on potential exemptions to this program. Following public consultation, staff will prepare a further report with recommendations for consideration.

Administration of the MAT

The Regulation provides that expenses relating to the administration of the MAT can be funded from the MAT proceeds. The City can choose to keep the administration of the MAT "in house" (either through the City or Stratford Tourism Alliance) or contract with a third-party.

Many Ontario municipalities that have implemented the MAT are using the services of the Ontario Restaurant, Hotel & Motel Association (ORHMA) as the collecting agent. Municipalities using this agency include Sarnia-Lambton County, Peterborough, Region of Waterloo, and Huntsville. ORHMA is the only third-party collection agency offering this service in Ontario. Their service includes:

- working with the municipality and accommodators to implement the tax (meeting with accommodators, providing tools for implementation, forms, training, etc.),
- developing an accommodator database,
- collecting & remitting the tax, and
- administering the program on an ongoing basis.

The cost to administer the program in house versus with a third party agency is outlined below:

In-House MAT Administration Cost and Resource Estimate:

- 1 to 1.5 FTE employees to start-up and maintain MAT;
- IT staff and database software;
- \$60,000 - \$ 100,000

Third-Party MAT Administration Cost Estimate:

- \$3,000 one-time set-up fee;
- 1% of the gross MAT generated annually;
- Using the estimated gross MAT of \$800,000 provided in the October 29, 2019 staff report, the annual fee would be approximately \$8,000.00

If the City was to retain a third-party administrator, the roles and responsibilities in setting up the MAT program would be organized as follows:

Roles and Responsibilities	
City of Stratford	Third-Party Administrator
Provide detailed design of the MAT	Assist City with the development of accommodator requirements based on the City's design of the MAT
Obtain Council approval of any Agreement, design of the MAT and enacting by-laws	Provide input into the communications plan and education/information provided to accommodators
Provide detailed reporting requirements	Assist the City in the development of an accommodator database by issuing notifications to properties subject to the MAT
Develop, with input from the STA and 3 rd Party Administrator, a public, visitor and industry stakeholder communications strategy	Lead the monthly revenue remittance process and follow-up with outstanding/late remittances
Ensure that the 3 rd Party Administrator is administering the MAT program within the terms of the Agreement	

Due to staffing and resource constraints at the City and STA, it is recommended that a third-party be contracted to administrator the MAT program for a 3-year period.

MAT Percentage to be Collected

As indicated in the October 29, 2019 Management Report and based on research to date, all Ontario municipalities that have implemented the MAT are collecting at the rate of 4%.

The Regulations do not regulate the rate at which the MAT shall be collected. It is recommended that the City seek feedback from accommodators on rate options and provide a recommendation to the Committee in a subsequent report.

Timeline and Stakeholder Consultations

With approval from Council, the following timetable and consultation schedule will be initiated:

Step	Date
Council approval in principle	February 10, 2020
Public consultation	Month of February and March
Report on public consultation to Committee and additional recommendations	April 14, 2020
Council consideration	April 27, 2020
Implementation Activities	May - December
Estimated Implementation Date	January 1, 2021

Consultation will include (but not be limited to):

- Stratford Tourism Alliance (STA) Board of Directors,
- Hotels/Motels and Bed and Breakfast establishments,
- BIA,
- RT04,
- Festival Theatre,
- Chambers of Commerce,
- Invest Stratford,
- Members of the public.

2. Boundary Accommodators

There are accommodators that are located outside the boundaries of the City that are members of the Stratford Tourism Alliance. While the City cannot require these accommodators to collect and remit the MAT, there are options available to ensure that these members benefit.

Throughout Ontario (namely Sarnia-Lambton & City of Kingston) boundary accommodators were invited to collect and remit 4% of qualifying stays through a voluntary Destination Marketing Fee. This would allow them to benefit from and

participate in any MAT funded projects or programs supported by the Stratford Tourism Alliance.

To date, neighbouring municipalities have not adopted the MAT. If the MAT is mandated by Perth East or Perth South these accommodators will no longer be able to participate in the voluntary Destination Marketing Fee as the legislation does not permit the two programs to operate simultaneously in the same municipality.

3. Program Effectiveness

It is recommended that the City of Stratford and Stratford Tourism Alliance jointly undertake a study in 2024 (3-years after implementation) to analyze the effectiveness of the MAT Program and recommend possible program refinements.

Financial Impact: The MAT collected must be shared 50/50 between the City and a tourism provider. As outlined above, there are no restrictions on how the City's portion can be spent. It is estimated the MAT could generate approximately \$800,000 annually.

Alignment with Strategic Priorities:

Developing our Resources

Optimizing Stratford's physical assets and digital resources. Planning a sustainable future for Stratford's resources and environment.

Widening our Economic Opportunities

Strengthening Stratford's economy by developing, attracting and retaining a diversity of businesses and talent.

Staff Recommendation: THAT the report entitled "Municipal Accommodation Tax – Next Steps" be received for information;

THAT Council supports, in principle:

- **the establishment of a mandatory Municipal Accommodations Tax for accommodators in the City of Stratford effective January 1, 2021; and**
- **a sharing model of 50/50 for the Stratford Tourism Alliance and the City of Stratford;**

THAT the creation of a Municipal Accommodation Tax Reserve Fund, to separate the City's portion of the Municipal Accommodation Tax revenues for uses to be determined by Council, be supported;

THAT the City Clerk, or designate, be authorized to draft the necessary Agreement with the Stratford Tourism Alliance for the use of the 50% of the Municipal Accommodation Tax, in consultation with the City Solicitor;

THAT the City Clerk, or designate, be authorized to draft an agreement and pursue a third-party administrator of the MAT Program;

AND THAT staff be directed to commence public consultation on this project and to prepare a management report to be considered at an upcoming Finance and Labour Relations Committee meeting.



Tatiana Dafoe, Acting Clerk



Michael Humble, Director of Corporate Services



Joan Thomson, Acting Chief Administrative Officer