



**City of Kingston
Report to Council
Report Number 18-081**

To: Mayor and Members of Council
From: Lanie Hurdle, Commissioner, Community Services
Resource Staff: Same
Date of Meeting: March 6, 2018
Subject: Municipal Accommodation Tax

Executive Summary:

In 2004, in the absence of a provincial framework, Kingston Accommodation Partners (KAP) introduced a Destination Marketing Fund (DMF) which was a voluntary 3% hotel fee which has been leveraging funds to promote tourism in Kingston. The 3% hotel fee is applied to each hotel night rented and paid by the visitor, not the business. As of the end of 2017, a total of 24 hotels in Kingston had partnered with KAP to levy the voluntary 3% hotel fee. The funds collected have been primarily used for tourism promotion, tourism product development as well as sales and marketing efforts.

The 2017 Ontario Budget, A Stronger, Healthier Ontario, granted authority to municipalities to impose a mandatory Municipal Accommodation Tax (MAT), which could apply to hotels, motels, bed & breakfasts, participants operating a common platform for individual accommodators, and all other accommodators with a room renting consecutive room nights of under 30 days. This new legislation does not apply to post secondary institutions that are renting rooms within their student residences.

In November 2017, the Province issued the Transient Accommodation Regulation 435/17, which came into force December 1, 2017 and provides the necessary provisions for municipalities across Ontario to implement a Municipal Accommodation Tax (MAT).

Some municipalities, including Ottawa and Mississauga, have already made a decision to implement a MAT. Others such as Toronto, London and Niagara Falls are in the process of reviewing this option and its potential implementation. All municipalities researched so far have approved or are considering a 4% MAT.

In 2017, KAP collected \$1,727,451 through the 3% hotel fee from 24 hotels, not including residences at St. Lawrence College and Queen's University. There are an additional 763

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hotel/motel and bed & breakfast rooms that are currently not applying the 3% voluntary hotel fee. Based on current fees collected and assumptions made in regards to revenues generated through current room rentals, it is anticipated that there is a potential to leverage as much as \$3,280,000 per year by applying a 4% MAT to all hotels, motels and bed & breakfasts. This amount is almost double the current fee collection and does not include other accommodations such as Airbnbs. Staff intend to bring a MAT that could include accommodations such as Airbnbs but will want to coordinate other potential initiatives such as a licensing program to ensure that all implications as it relates to these types of accommodations are clearly defined before a final recommendation is presented to Council. It is therefore anticipated that this would be presented as a second phase of a MAT.

The new provincial legislation states that municipalities that adopt the MAT who have an existing Destination Marketing Program (DMP) will be required to revenue share an amount equivalent to what was raised from the DMP to the local non-profit entity who previously received such revenues. In the case of Kingston, KAP is not-for-profit and has been collecting the DMF for the past 13 years and therefore, any collection of a future MAT will require a revenue sharing with KAP. The legislation clearly identifies that the funds redirected to KAP must be utilized for the exclusive purpose of promoting tourism. Tourism promotion includes the development of tourism products.

Currently, both KAP and Tourism Kingston, which is the Destination Marketing Organization (DMO) are working together to actively market and promote Kingston as a tourism destination. KAP is reallocating a portion of the DMF to Tourism Kingston to support tourism promotion, sales and marketing. The tourism promotion and marketing model which has been implemented in Kingston over time is different from a number of models operating in other communities. This report recommends that the roles and responsibilities between KAP and Tourism Kingston be reviewed in light of Tourism Kingston recently being established as the DMO and the potential implementation of a new MAT.

City staff have had initial discussions with both KAP and Tourism Kingston Boards of Directors who have identified general support for the implementation of a MAT. Based on these initial discussions, the City would collect the MAT by working with hotels, motels and bed & breakfasts. The City would also reallocate a portion of the funds to KAP as prescribed by the legislation. This report recommends that Council endorse in principle the implementation of a 4% MAT, subject to staff reporting back with more details on the implementation and the reallocation model. Should Council support the recommendation, staff would initiate detail conversations with key stakeholders on the collection and reallocation of revenues generated by implementing a MAT.

Tourism is a significant employment and economic driver in Kingston and reinvestment in its promotion and development is critical to continue to grow this sector. The MAT would enable the City to be able to increase the investments without any further contribution from local tax payers.

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Recommendation:

That Council endorsed in principle the Municipal Accommodation Tax program with a set rate of 4% applicable to all hotels, motels, bed & breakfasts in phase 1 and to other accommodations in phase 2; and

That Council direct staff to work with stakeholders including the Kingston Accommodation Partners and Tourism Kingston to develop and report back with a detailed implementation plan; and

That Council direct staff to consult with the Kingston Accommodation Partners and Tourism Kingston to review roles and responsibilities to maximize the redistribution of the new Municipal Accommodation Tax.

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Authorizing Signatures:

ORIGINAL SIGNED BY COMMISSIONER

Lanie Hurdle, Commissioner, Community Services

ORIGINAL SIGNED BY CHIEF ADMINISTRATIVE OFFICER

Gerard Hunt, Chief Administrative Officer

Consultation with the following Members of the Corporate Management Team:

Jim Keech, President & CEO, Utilities Kingston	Not required
Desirée Kennedy, Chief Financial Officer & City Treasurer	√
Denis Leger, Commissioner, Corporate & Emergency Services	Not required

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Options/Discussion:**Legislative Background**

The Province endorsed the 2017 Ontario Budget, A Stronger, Healthier Ontario, which grants authority to municipalities to impose a mandatory municipal accommodation tax (MAT). The MAT would apply to hotels, motels, bed & breakfasts, participants operating a common platform for room nights of under 30 days. The legislation exempts all rooms rented by institutions.

Municipalities that implement a MAT who have an existing Destination Marketing Program (DMP) program will be required to revenue share an amount equivalent to what was raised from the DMP to the local non-profit tourism entity who previously received such revenues. For municipalities without such a DMP, at least 50 percent of the MAT revenue is to be allocated to the appropriate eligible tourism entity.

As a result of the approval of Bill 127, A stronger, healthier Ontario, which provided a framework for the MAT, the Ministry of Municipal Affairs, Ministry of Finance and Ministry of Tourism, Culture and Sport have worked together to develop a Regulation which specifies the requirements for the administration of the MAT. In November 2017, the Province issued the Transient Accommodation Regulation 435/17 which came into force in December 2017 and provided the provisions to enable municipalities in Ontario to implement a MAT.

The Regulation enables municipalities to establish a MAT through a municipal by-law as well as set the appropriate rate for a MAT. Municipalities can also enter into agreements with other parties for the collection of the MAT on behalf of the municipality. The Regulation also prescribes a revenue sharing formula where proceeds are shared with the eligible tourism entity. Under the Regulation, the municipality is required to provide the local tourism entity:

- The amount collected and received by the not-profit tourism entity through the DMF based on the previous year; and
- In subsequent years, the previous fiscal year MAT revenue collected and received by the non-profit tourism entity adjusted by a 10-year rolling average of the annual percentage change in Ontario's total tourism receipts published by the Ministry of Tourism, Culture and Sport.

The Regulation requires municipalities to ensure that the local tourism entity receives similar revenues collected through the DMF in the last fiscal year before the tax came into effect. Municipalities are not required to supplement the MAT if revenues are below the base year of the previous fiscal year.

City of Kingston Context

Kingston Accommodation Partners (KAP) is a not-for-profit organization that has been collecting a voluntary 3% hotel fee since 2004. KAP has been utilizing these funds to support tourism promotion, sales and marketing as well as product development. KAP has collected the following amounts in the past five (5) years:

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2013 - \$1,337,477
2014 - \$1,383,168
2015 - \$1,566,247
2016 - \$1,668,315
2017 - \$1,776,835

In 2017, the revenues included a number of partnership contributions from non-accommodators such as restaurants. The amount also included voluntary hotel fees levied by both Queen's University and St. Lawrence College residences, which would not be subject to the new MAT but could still choose to voluntarily contribute through an ongoing partnership with KAP. The amount that was collected in 2017 from accommodators (24 hotels with 1,800 rooms) that would be subject to a new MAT is \$1,727,451.

There are currently an additional 31 hotels, motels and bed & breakfasts that have chosen not to implement the voluntary 3% hotel fee. Should a MAT be approved, these hotels, motels and bed & breakfasts would be required to implement the MAT.

Based on preliminary research completed by staff, municipalities that have adopted the MAT or that are in the process of considering the implementation of the MAT, are setting its rate at 4%. Assuming that Kingston endorsed the 4% rate, it is anticipated that the potential revenue generation from hotels, motels and bed & breakfasts would be up to \$3,280,640 per year, which is almost double the 2017 KAP voluntary hotel fee.

It is important to note that the MAT can also apply to other types of accommodations such as Airbnbs. As of January 2018, there were 302 Kingston properties advertised on Airbnb and 26 Kingston properties advertised on VRBO. Staff are proposing that these accommodations be considered for the MAT as part of a second phase to ensure that any other initiatives applicable to these accommodations such as the licensing program be reviewed within a broader context. A MAT ensures fairness across the sector, by requiring every eligible accommodator who benefits from Kingston Tourism's sales, marketing and destination development efforts to contribute their fair share. Applying the MAT to these accommodations would leverage additional funds for tourism promotion.

Uniformity in collection throughout all accommodators in Kingston would also offer visitors a consistent experience. Based on preliminary discussions with both KAP and Tourism Kingston, it is proposed that the City would collect the MAT should it be implemented. As per the legislation, the City would redirect a portion of those revenues to KAP for the purpose of tourism promotion. The City would also have to establish an agreement with KAP which detailed expectations for the use of the funds.

It is anticipated that the implementation of a MAT would enable the City, KAP and Tourism Kingston to have access to more revenues to support additional tourism promotion, marketing and product development. The funds could also potentially be utilized to establish a reserve fund that could support future initiatives such as event bids and infrastructure projects.

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Staff are proposing an endorsement in principle of a 4% MAT with the direction to work with key stakeholders and report back to Council with a detailed implementation plan.

Existing Policy/By-Law:

Official Plan and zoning by-laws

Notice Provisions:

Not applicable

Accessibility Considerations:

Not applicable

Financial Considerations:

Not applicable

Contacts:

Lanie Hurdle, Commissioner, Community Services 613-546-4291 extension 1231

Other City of Kingston Staff Consulted:

Lana Foulds, Manager, Financial Planning

Paige Agnew, Director, Planning, Building & Licensing

Julie Salter Keane, Community Projects Manager

Others External Individuals Consulted:

Megan Knott, Kingston Accommodation Partners

Rob Kawamoto, Executive Director, Tourism Kingston

Exhibits Attached:

Not applicable