Staff Report



| То | Committee of the Whole |
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| Service Area | Infrastructure, Development and Enterprise Services |
| Date | Monday, February 7, 2022 |
| Subject | Municipal Accommodation Tax |

Recommendation

- 1. That a four percent Municipal Accommodation Tax rate, as outlined in report 2022-09 Municipal Accommodation Tax, dated February 7, 2022, be approved.
- 2. That staff be directed to negotiate and execute a five-year agreement, subject to the satisfaction and authority of the City Solicitor and the Deputy Chief Administrative Officer, Infrastructure, Development and Enterprise, with the Guelph Chamber of Commerce (the Tourism Entity) for the purpose of implementing a Municipal Accommodation Tax.
- 3. That Appendix A of the General Reserve and Reserve Fund Policy be amended to reflect the creation of a Tourism Municipal Accommodation Tax Reserve (184) with the terms and authority as identified in the 2022-09 Municipal Accommodation Tax report, dated February 7, 2022.
- 4. That the Tourism Municipal Accommodation Tax Reserve be approved to be over-drawn up to a maximum of \$1 million, to be paid back by 2027, to enable the program startup activities.

Executive Summary

Purpose of Report

To seek approval to implement a Municipal Accommodation Tax (MAT) on all eligible Guelph transient accommodations as identified within the provincial legislation at a rate of four percent effective September 1, 2022.

Key Findings

The introduction of a MAT will establish and enable the Guelph Chamber of Commerce (the Tourism Entity) to make strategic tourism destination marketing investments that will benefit Guelph by attracting more overnight visitors and increasing economic impact in the community.

The City of Guelph's collected revenues will enable new developments in Tourism services, provide greater support for tourism organizations and businesses, and advance the Economic Development and Tourism Strategy, as well as facilitate investment in infrastructure that supports new and enhanced visitor services and programs.

The MAT is collected on room nights sold in an accommodation and impacts travelers and visitors. Guelph will benefit from the MAT with investments made through new programs, enhanced services, infrastructure and lifestyle improvements without an increase or impact to property taxes.

The implementation of MAT is a key priority of Goals 5 and 6 within the <u>Economic</u> <u>Development and Tourism Strategy</u>, presented to Council January 2022. Priority 5.1 "Implement the Municipal Accommodation Tax" highlights the importance of the implementation of MAT for Guelph and outlines the significance of MAT to the outcomes of the overall Economic Development and Tourism Strategy. MAT also supports the City of Guelph's Strategic Plan through the Powering our Future and Working Together for our Future strategic pillars.

The City has hosted several meetings and information sessions with accommodation providers and tourism stakeholders, and opinions are supportive of the implementation of MAT with the goal to increase overnight stays in the city. The stakeholders have informed administration that the funds collected should not replace existing sources of tourism funding but instead grow the investment in the industry.

The proposed four percent MAT rate is based on industry standards across the province. Many tourism growth activities as outlined in the Economic Development and Tourism Strategy are reliant on the MAT and would happen in a modified capacity without these resources.

Financial Implications

Prior to the COVID-19 outbreak, it was estimated that at a four percent tax rate, Guelph hotels and motels would generate an estimated \$1 million in revenue annually based on a 2017 study conducted by the Regional Tourism Organization 4 (RTO4). A 2022 refresh to the report indicates that the COVID-19 pandemic has impacted the local accommodation compliment and estimated collected revenues are now anticipated to be between \$500,000-\$850,000.

The provincial regulation stipulates that the municipality can retain up to 50% of the revenue with the remainder distributed to the Tourism Entity (Guelph Chamber of Commerce). It is recommended that the City retain 50 percent of the revenue for new and enhanced tourism development; the remaining 50 percent of the revenue will be provided to the Guelph Chamber of Commerce for destination marketing as per the regulation.

The tax can also be applied to short-term rental stays (e.g., Airbnb, VRBO). Based on the same 2017 study, at four percent, the Guelph short-term rental market would generate another estimated \$14,000 in revenue annually. However, it is predicted that the initial estimate is low and collected short-term revenues could be more than \$100,000 per year. To support consistent and transparent collections of MAT on short-term rentals, it's imperative that the Long-term and Short-term Rental Housing report, dated February 7 2022, be approved. If the Long-term and Short-term Rental Housing report is not approved, MAT will still be collected on short-term rentals. However, the process becomes more difficult to identify accommodation hosts and collect MAT owed.

It is important that the municipal share of funds collected through the MAT be segregated and specifically used only for approved municipal tourism purposes to demonstrate transparency and accountability to the accommodation sector. Staff recommends a specific Tourism MAT Reserve for use of the City's portion of the collected revenue to fund full-time permanent staff and in addition the funding would be utilized to enhance a variety of corporate projects such as:

- Supporting industry development and individual operators to enhance and strengthen their product in the tourism market.
- Supporting the creative industry and individual artists and cultural activists to enhance and strengthen their product in the tourism market.
- Developing itineraries, workshops and experiential programs that will increase visitation.
- Wayfinding throughout the city.
- Pop-up activations to enhance conferences, sporting events and festivals.
- Infrastructure projects such as public art, cycling enhancements and park enhancements.
- Tourism-supporting enhancements to existing capital projects that would otherwise require additional tax-supported funds.

To facilitate program initiation, the Economic Development and Tourism department is requesting access to start-up funding of up to \$1 million in spending in advance of MAT revenues being collected. The Guelph Chamber of Commerce and the Economic Development and Tourism department would be able to access up to \$500,000 each to begin programming, hire staff, support local tourism businesses, and develop enhanced destination marketing tools and campaigns. These monies would be repaid to return the reserve to a positive position within a five-year period (or by the end of 2027) from the monies collected through the MAT.

These start-up resources are particularly important to ensure there is no delay to start activities as it could potentially take up to a year for the funding to sufficiently accumulate. The tourism industry has been particularly impacted during the Covid-19 and recent Omicron lockdown periods and tourism businesses will need early support to ensure that the programming is in place to rebuild the industry.

Report

The pandemic has had significant impact on the local tourism industry. Rebuilding Guelph's tourism industry is vital to the local economy. It is anticipated that generating revenues back to pre-pandemic numbers will take longer than initially predicted. Implementing the MAT at this time will support the growth and rebuilding of the tourism industry in Guelph. The Minister of Heritage, Sport, Tourism and Culture Industries stated in December 2021 that tourism numbers will increase slowly and are not expected to recover until 2025 or later. The Tourism Industry Association of Ontario (TIAO) has shared that:

- 3 in 4 tourism businesses in Ontario are in debt and won't recover for at least two years.
- Ontario is reopening but almost half of its tourism businesses can't afford to hire staff and a quarter can't afford to pay rent or mortgage.
- 6 in 10 tourism businesses in Ontario have seen their revenues plummet by at least 90 percent.

In 2017, the Province of Ontario amended the Municipal Act, 2001, and issued <u>Ontario Regulation 435/17</u>, which came into effect on December 1, 2017. This legislation grants the authority to single and lower-tier municipalities to implement

a mandatory tax in respect of the purchase of transient accommodation (a Municipal Accommodation Tax or "MAT"). A MAT would be applicable on all qualifying transient accommodations including hotels, motels, inns, bed and breakfasts, resorts, and short-term rental companies (e.g., Airbnb) for stays up to 30 days.

The regulation allows municipalities the option to implement a mandatory tax for transient accommodation through a by-law and to set the tax rate. Per the Regulation, municipalities have the flexibility to determine the design, administration, and collection of a MAT. At least 50 percent of the revenues from the tax must be shared with an eligible non-profit tourism entity. Up to 50 percent of the revenues from the tax may be retained by the municipality.

On September 23, 2019 Council directed staff to enter negotiations with a potential eligible Tourism Entity, as outlined in report <u>PS-2019-19 Tourism Entity</u> <u>Negotiation</u>, regarding the implementation of a Municipal Accommodation Tax. A five-year agreement between the City of Guelph and the Guelph Chamber of Commerce has been drafted.

The bylaw delegates authority to the City Solicitor and Deputy Chief Administrative Officer, Infrastructure, Development and Enterprise to negotiate, approve, and sign the agreement with the entity.

Key elements of the agreement include defined role and activities of the City and Guelph Chamber of Commerce, reporting structure, split of revenue and payment terms and repayment on any draws on the reserve over the five-year agreement term. The agreement allows for ongoing conversations between parties to facilitate the most successful outcome without duplication of work. Summary of roles and activities are found in Attachment-1 Proposed Activities.

Staff, in agreement with the Guelph Chamber of Commerce, are suggesting collection of the MAT begin on September 1, 2022.

Based on tourism industry recommendations and research of other municipalities with a MAT, the aim of the legislation is to generate new revenue that increases capacity in the community for the development of competitive tourism products and promotion, increasing overnight stays which in turn increases economic impact. MAT-supported initiatives include the enhancing of existing tourism product including sport, art, music, heritage, and other cultural offerings that contribute to Guelph's high quality of life for residents, as well as developing new programs that will improve visitor experience.

The MAT will enable increased capacity for the Tourism division to develop, support, and facilitate new, larger-scale tourism projects without further impacting property taxes. This funding could be utilized to enhance any number of a variety of corporate projects. Below are examples that could be considered as part of larger corporate projects:

- Adding additional cycling infrastructure to road and park projects.
- Working with organizations experienced with mentoring, fostering, and supporting new tourism ideas, experiences, and partnerships.
- Leveraging tourism product development opportunities for women, BIPOC, people who identify as members of LGBTQ2+ community, and other underrepresented groups.

- Installing an urban or active playground in the downtown.
- Unique artist-inspired/designed "G" benches or unique bike racks for parks and city streets with a "find them all" information page.
- Interactive cooling fans/water sprayer stations and water refill stations
- Transit terminal/central station beautification.
- Expansion of Visitor Information Kiosk program and visitor support resources.
- Interactive lighting displays that change with the seasons for downtown and larger parks.
- Functional/beautiful "points of interest" map with interactive maps at parking areas.
- Investment in pop-up infrastructure and storage such as vendor stalls and benches.

The City's Tourism division has responded to effectively support this industry sector during the COVID-19 pandemic. The department developed and implemented programs and services that strengthen Guelph's tourism industry and attracts visitation. With the Council directed \$700,000 tourism recovery funds in 2021, tourism staff supported the industry by:

- Directing \$482,780 to 50 Guelph tourism businesses with the Tourism Recovery Fund through two streams: emergency operating expense relief (rent, utilities, and payroll) and physical and technological adaptation support (patio beautification, safety modifications and digital upgrades).
- 29 businesses were restaurants, food establishments, breweries, or distilleries, seven were accommodations, nine were event or event spaces, three were destination retail, three were general tourism businesses and 53 percent were within the DGBA boundary.
- Recreation and Culture directed \$156,500 from their \$700,000, to nine tourism-oriented events and organizations through the three phases of the COVID-19 Emergency Fund from Public Services.
- Attracting overnight stays through the \$43,000 'See yoU in Guelph' accommodation/gift card package investment resulted in approximately \$26,640 of new accommodation bookings through Phase 1 and an additional \$5,500 was spent in Guelph on top of the initial \$100 gift card. Phase 2 is scheduled to run again in Spring 2022. It is estimated that an additional \$44,400 in new accommodation bookings will occur and an additional \$9,250 above and beyond the \$100 gift card.
- Investing \$65,000 through the Guelph Re-emerging Legacy Festivals and Events Support Program to encourage a strong return in 2022.
- Supporting Guelph small businesses through Clicks Support Bricks with \$1,000 investments. Approximately \$40,000 was generated back to the businesses and the local economy from an initial \$12,000 investment.
- Encouraging collaboration through the Tourism Collaborative Support Opportunity. An estimated additional \$16,700 was leveraged from the initial \$21,111 investment.
- Enhancing visitation by investing \$26,307 into destination marketing initiatives, including a Neighborhoods Exploration Campaign, content creation with travel writers, bloggers, and ad buys.
- Strengthening Guelph's Food Trucks by subsidizing the \$9,802 booking fees and allowing trucks an opportunity to operate each Tuesday in September.

• Supporting the beautification of downtown Guelph with a \$40,000 payment to the Downtown Guelph Business Association (DGBA) to enhance the downtown experience.

To be more proactive and responsive to these opportunities, MAT-funded staff will be required to assist with tourism-based strategic development and project implementation. Any additional costs required to implement and maintain the program will be identified for Council's approval.

The overall City of Guelph Strategic plan looks to offer residents, businesses, and visitors a continued place to grow while allowing staff to lead innovative programs and services to enable Guelph to be future ready. MAT supports the Powering our Future and Working Together for our Future strategic pillars. This initiative contributes to a sustainable, creative, and smart local economy, while also developing a long-term financial approach that is achievable and affordable. As a new funding option, MAT will allow for new and enhanced strategic projects that grow tourism, increase visitor spending, and strengthen the local economy without impacting the tax-base. The resources from MAT will support opportunities to leverage resources to further build Guelph as a destination and creating must-see visitor experiences.

The implementation of MAT is identified as a key priority in Goal 5 "Build a mustsee visitor destination in Ontario" and Goal 6 "Enhance Guelph's unique brand for business, talent, and visitors" of the <u>Economic Development and Tourism Strategy</u> <u>2022-2026</u>. Priority 5.1 "Implement the Municipal Accommodation Tax" highlights the importance of the MAT for Guelph. Additional actions within strategy priorities (5.2, 5.3, 5.4 and 6.1) are reliant on MAT to be implemented to ensure successful outcomes of the strategy. Immediate and long-term goals of building Guelph as a visitor destination of choice, curating destination experiences and enhancing the visitor brand, will not be successful without direct investment into tourism. Without these resources, staff will have to modify expected results and adjust priorities.

The Economic Development and Tourism Strategy have Key Performance Indicators (KPIs) built in to ensure success. Ongoing tracking and assessment are important to measure the success of MAT. City staff and the Guelph Chamber of Commerce will develop relevant metrics to track success and support project development for consistent reporting.

The KPIs associated with the MAT will be structured to reflect tourism's broad range of functional areas, such as marketing, grant funding, development, placemaking, etc. Multiple metrics will be incorporated into the programming and projects through data collected from the MAT remittance, such as occupancy, revenue, overnight stays, etc., with growth-focused targets. As projects and programming are underway, the metrics will shift to measure all key aspects of the MAT, including both operational and remittance focused performance metrics.

Success will readily become apparent with an increase in the number of overnight stays as a percentage comparator year-over-year. Additionally, success will be recognized, for example, by the increased tourism capacity and product development, digital engagement metrics, tracked attendance, and more. The month-by-month reporting by the accommodation providers will also easily illustrate visitation, specifically in the changing seasons and shoulder season programing.

Financial Implications

Guelph's accommodation sector has seen three organizations refocus the use of their spaces and/or withdraw from the tourism market, affecting the inventory of available rooms in Guelph. As of 2021, there are 13 key accommodations within Guelph representing 983 rooms. At the industry standard four percent tax rate, Guelph hotels and motels would generate an estimated \$500,000 to \$850,000 in revenue to be shared by the City and the Guelph Chamber of Commerce.

In addition, the Guelph short-term rental market consists of at least 162 lodgings. Short-term rentals are expected to generate an estimated \$100,000 in revenue annually.

Funding levels are not guaranteed as they are based solely on room nights sold. The MAT should support industry rebuilding and ultimately increase business at accommodations through targeting overnight visitors and increasing room nights sold. There also is a need to generate more room nights sold in off-peak times for the growth of the industry. There is risk to the overall funding fluctuating as it is reliant on accommodation providers maintaining the current number of rooms sold. A decrease in overnight visitors will impact the number of rooms sold and decrease revenues. Staff will continuously monitor and realign program spending each year based on actual revenue collected.

Staff are recommending that administration and collection of the MAT is done by a third-party association acting on behalf of the City. This would enable efficient implementation, training, collection, reporting and auditing by an organization that possesses a solid understanding of the governance required for compliance. A small administrative fee would be paid out of the MAT revenues before the separation of revenues with the Guelph Chamber of Commerce. Based on current conversations with a third party, the cost would be 1.8% annually, which is anticipated to come to approximately \$9,000-\$17,000. If a licensing program for short-term rentals is approved by Council in future, the payment of the MAT and any licensing fees would be coordinated where possible.

It is recommended that the City's half of the revenue be segregated into a reserve to ensure use of the MAT is consistent with the expectations of the tourism industry. For this reason, the City is proposing the creation of a new reserve governed by the General Reserve and Reserve Fund Policy. The use of the funds would be restricted to the activities as outlined in Attachment-1 Proposed Activities.

Staff are proposing that Appendix A of the General Reserve and Reserve Fund Policy would be amended with the following new reserve terms and conditions:

Reserve Name: Tourism Municipal Accommodation Tax

Purpose: To fund tourism development programs and projects in accordance with the objectives as approved in report 2022-09.

Target Balance: No established maximum. Reserve balance must be positive.

Source of Funds: Bylaw XX – Municipal Accommodation Tax collection net of administration costs

Use of Funds: Program and capital projects consistent with Attachment-1 of report 2022-09.

Authority/Timing: Capital and/or operating transfers will be approved by Council as part of budget. DCAO IDE and City Treasurer approval of in-year transfers in accordance with the pre-approved purpose/use.

To support the program initiation, the Economic Development and Tourism department is requesting access to start-up funding of up to \$1 million in advance of revenues being collected. The City and the Guelph Chamber of Commerce would each be able to access up to \$500,000 to begin implementation of programming, hire staff, develop products to increase overnight stays. These monies would be repaid to return the reserve to a positive position within a five-year period (by the end of 2027) from the monies collected through the MAT.

These start-up resources are particularly important to ensure there is no delay to activities beginning, as it could potentially take up to a year for the funding to sufficiently accumulate. The tourism industry has been particularly impacted during the Covid-19 lockdown periods and the small businesses will need early support to ensure that the programming is in place to rebuild the industry.

Consultations

In 2018, staff began investigating the possibility of implementing a MAT with support from the Tourism Advisory Committee (TAC). Throughout 2018, 2019 and 2021, Tourism Services staff held consultations, including individual interviews and group meetings, with identified key external and internal stakeholders regarding the potential implementation and impact of a MAT in Guelph.

Over the past three years, staff have monitored activities of other Ontario municipalities with a MAT. Attachment-2 presents a summary of the information and examples gathered, demonstrating that Guelph is aligned to the industry standard and one of few remaining mid-size local municipalities to propose MAT. In this case, it has benefited the City to watch and learn from successes and challenges of other municipalities.

The City's Council appointed TAC received regular updates on the details and implications of MAT during Committee meetings. At the TAC meeting on July 15, 2019, the Committee voted in favor of the staff recommendation to Council.

"That the Tourism Advisory Committee supports the recommendation to Council that staff develop an agreement with an eligible tourism entity."

In meetings conducted during 2020 and 2021 TAC has had several conversations specific to MAT and the Committee maintains its support of the opportunity. TAC is looking forward to the implementation and the enhancements to Guelph tourism industry that MAT will support in years to come.

On December 13, 2021, staff, along with the Guelph Chamber of Commerce, hosted a stakeholder information session to provide accommodation providers an update and an opportunity to share feedback. Representatives from Guelph's hotel, motel, and B&B compliment attended the session. Accommodation providers focused on the following:

- The group is eagerly awaiting the implementation of MAT and the direct reinvestment of revenues back into the tourism industry to support initiatives like tourism marketing/promotion, programming, and product development.
- Short-term rental accommodations should be included in the bylaw and subject to collection.

- Regular assessment and reporting to measure the success of MAT in Guelph is very important.
- That the Guelph Chamber of Commerce hires an established destination marketing professional who brings years of proven abilities and experience growing a destination.
- A need for Economic Development and Tourism staff to be members of the Guelph Chamber's stakeholder committee for consistent monitoring of roles and activities.
- The group expressed that transient accommodations provided on postsecondary campuses should be included. However, the Municipal Act prohibits implementing the MAT at educational institutions.

In addition, the City's Council appointed Guelph Economic Development Advisory Committee (GEDAC) were provided a fulsome overview and opportunity to support the MAT at a GEDAC meeting on October 26, 2021. The committee also voted in favor of the staff recommendation to Council.

"That the Guelph Economic Development Advisory Committee support recommendations by staff to implement the Municipal Accommodation Tax for Guelph."

Strategic Plan Alignment

The MAT and Tourism Services support the following Strategic Pillars:

Powering our Future - contributing to a sustainable, creative, and smart local economy.

- Fostering downtown business innovation to support a thriving downtown Guelph
- Supporting and attracting circular economy businesses
- Leveraging partnerships with the University of Guelph and Conestoga College
- Supporting the work of key sectors within Guelph's economy, such as advanced manufacturing, agri-tech and clean tech
- Building collaborative partnerships with businesses
- Encouraging the growth of Guelph's employment base, offering meaningful opportunities for all

Working Together for our Future - developing a long-term financial and resource strategy that is achievable and affordable.

- Maintaining our delivery of core services
- Clarifying the service levels the City delivers to the community
- Establishing a multi-year budgeting and planning process
- Exploring new funding options, service-delivery models, and partnerships to ease taxes for residents and businesses

Attachments

Attachment-1 Proposed Activities

Attachment-2 Comparable Municipalities

Attachment-3 Letter of Support, Airbnb

Attachment-4 Municipal Accommodation Tax Presentation

Departmental Approval

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