



**SUBJECT: Municipal Accommodation Tax (MAT)**

**TO: Committee of the Whole**

**FROM: City Manager's Office**

Report Number: CM-23-19

Wards Affected: All

File Numbers: 125-01

Date to Committee: November 4, 2019

Date to Council: November 18, 2019

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### **Recommendation:**

Table report CM-23-19 regarding establishment of a Municipal Accommodation Tax in Burlington and report back to Committee in early 2020 to provide recommendations related to implementation and the associated by-law.

### **Purpose:**

The Municipal Accommodation Tax supports the city's Strategic Plan and Vision to Focus document as follows;

#### A City that Grows

- Promoting Economic Growth
  - Focus Area 1 – Increasing Economic Prosperity and Community Responsive Growth Management - Increasing options for employment opportunities across the City

#### An Engaging City

- Good Governance

The purpose of this report is to provide Committee with information on the Municipal Accommodation Tax (MAT) for discussion and consideration for the possible implementation of the tax in 2020.

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## **Executive Summary:**

The following are highlights of this report:

- In 2017 the Province enacted legislation that granted authority to single-tier and lower-tier municipalities to implement a Municipal Accommodation Tax (MAT) on transient accommodations, including hotels and short-term rentals (less than 30 days).
- The purpose of the MAT is to enable growth in the tourism sector and increase tourism's economic impact.
- The MAT could generate an estimated \$750,000 - \$1 million of annual revenues in Burlington.
- A MAT is currently being collected by 30 municipalities across the province including cities nearby such as Toronto, Mississauga, Oakville, Vaughan, Waterloo and Niagara Falls. Hamilton is collecting a voluntary 3 per cent Destination Marketing Fee (DMF).
- An industry consensus MAT rate of 4 per cent has been established.
- The legislation requires the municipality to share a minimum of 50 per cent of the revenue from MAT with an eligible tourism entity. The remaining 50 per cent kept by the municipality is not mandated as to how it is spent although it is suggested it should support tourism related opportunities and infrastructure. Research indicates many communities are using the funds in this manner.
- Tourism Burlington (TB), is an eligible tourism entity and the Destination Marketing Organization (DMO) for Burlington. TB has requested the City of Burlington implement a 4 per cent MAT and remit at least 50 per cent of the revenue, net of collection and administration fees, to TB and that the City's remaining portion of MAT be used for destination development (refer to appendix A for full summary of TB Board recommendations).
- It is estimated that **1.4m visitors** come to Burlington annually, spending **\$101M**<sup>1</sup>. Twenty-five per cent of visitors stay overnight, mostly with friends and family. There are **1,889** tourism businesses and **24,491** tourism jobs in Burlington.<sup>2</sup>

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<sup>1</sup> Travel Survey of Residents of Canada, Statistics Canada

<sup>2</sup> Tourism by Federal Riding, Tourism HR Canada

## **Background and Discussion:**

### **Purpose**

The purpose of the MAT is to support communities that invest in tourism to enable growth in the sector so that tourism continues to be a contributor to economic growth and development. MAT revenues would be used to expand opportunities for tourism, increase visitors to the area, support product development, sport tourism, conferences and group travel recruitment. The MAT would help provide funding for sales and marketing programs to enhance Burlington's national and international profile as one of Canada's best and most livable cities, a place where people, nature and business thrive.

### **Legislation**

The 2017 Provincial Budget granted municipalities the authority to implement a tax on transient accommodations if they choose to do so. Bill 127 was passed in 2017 which provided the Province with the legislative framework for the MAT. On November 23, 2017, the Province enacted Ontario Regulation 435/17 which came into effect on December 1, 2017 allowing single-tier and lower-tier municipalities to levy a Municipal Accommodation Tax through a by-law. The regulation prescribes the necessary provisions for municipalities to implement a MAT on transient accommodations. The following are the highlights of the regulation:

- The tax can only be applied to accommodations that are short-term (under 30 days) in nature. The municipality can choose to apply the tax to other types of short-term accommodations such as bed and breakfasts, Airbnb, etc.
- Exemptions to the tax include accommodations rented by the month, university or college residences, hospitals, long-term care facilities, treatment centres, refuge houses, shelters, campgrounds, trailer parks, or designated employee accommodation.
- The tax applies only to the accommodation portion of the receipt. The tax does not apply to any incidental fees and charges unrelated to the purchase of accommodation i.e. meals, parking, laundry, meeting rooms, room service, etc.
- HST is charged on the MAT, if the business is an HST registrant.
- If imposed by a municipality, MAT is mandatory and must be paid by all applicable accommodation providers.
- MAT revenues must be shared between the municipality and a designated tourism entity (defined as a not-for-profit entity whose mandate includes the

promotion of tourism in Ontario or in a municipality) and must be used for the purpose of tourism promotion and tourism product development. The minimum revenue split between the two entities is 50/50, less the municipalities' or designated collection agency's reasonable costs for collecting and administering the tax.

Tourism Burlington Inc. is the non-profit organization which has an agreement to deliver tourism services on behalf of the City. The legislation requires that an agreement be entered into between the City and TB to ensure that any amounts paid to TB are used exclusively for tourism promotion and development and that reasonable financial accountability is maintained.

### **Revenue Sharing Formula**

Ontario Regulation 435/17 outlines revenue sharing formulas based on whether a Destination Marketing Program (DMP) exists in a municipality on the day before the MAT comes into effect. A Destination Marketing Program (DMP) does not currently exist in Burlington. According to the Transient Accommodation Tax regulation if a DMP does not exist on the day before the tax comes into effect, the municipality must annually remit at least 50 per cent of the revenue, minus reasonable administrative costs for the fiscal year, to an eligible tourism entity for tourism marketing. The remaining 50 per cent of the funding, the municipal portion, is unrestricted and may be allocated to municipal programs and services as determined by the municipality. However, most municipalities collecting MAT have allocated this portion of the tax to a tourism development or reserve fund as local stakeholders spoke to the importance of these funds benefiting tourism related initiatives and infrastructure.

In the immediate area, Toronto, Mississauga, Oakville, Vaughan, Waterloo and Niagara Falls are collecting MAT and others are considering this tax. The industry standard rate for this tax is 4 per cent. Uniformity in the MAT rate offers visitors a consistent experience when they are travelling in the province. The City of Hamilton has assumed the role of Destination Marketing Organization for the city as Tourism Hamilton and as such does not qualify as an eligible tourism non-profit organization. Since 2018 some of the Hamilton accommodations have been voluntarily collecting a 3 per cent destination marketing fee (DMF).

### **Short Term Rentals and Online Home Sharing Services**

Some municipalities are collecting the MAT from short-term rentals (STR) and several have negotiated agreements with Airbnb to collect the MAT. To provide some context, as of September 13, 2019 there were 157 properties in Burlington listed on Airbnb, 12 on HomeAway and 14 on VRBO (some are listed on more than one site).

If MAT goes forward it is recommended that a review of current STR zoning and licensing be undertaken before they are considered for inclusion. It has been noted that a staff direction was issued at the October 8, 2019 Planning and Development Committee Meeting to “Direct the Director of City Building to report back at the Council meeting of October 28, 2019 with immediate regulatory options for short term accommodations.” Therefore, this work may influence the decision to apply MAT to short-term rentals.

### **Burlington - Destination Marketing Fee**

From 2007-2010 the Burlington Hotel Association collected a voluntary Destination Marketing Fee (DMF) with the goal of increasing visitation to the city and overnight stays. On May 9, 2006 Burlington City Council approved the following recommendation:

THAT Council endorses the Destination Marketing Fund as established by Tourism Burlington Inc. and the Burlington Hotel Association as additional tourism marketing revenues and as outlined in Report PR32/06 dated May 9, 2006.

In 2007-2010 a DMF was voluntarily collected by the Burlington Hotel Association (BHA) and at that time Burlington Council recognized this funding was incremental revenue and therefore retained Tourism’s core city funding which is currently \$400,000/year (refer to appendix B and C for summary of tourism in region/city).

TB worked in conjunction with the Burlington Hotel Association, the TB Marketing Committee and Board to develop a comprehensive DMF marketing plan which included campaigns, sales missions and incentives. This was a very successful partnership and a similar consultative approach would be developed for the MAT funds provided to TB.

From 2007-2014 Tourism Burlington were provided **\$1.67M** in destination marketing fees (DMF) and **\$1.1M** in transition funds to increase visitation to the city. Additional staff resources were hired in order to develop new programs such as:

- Providing incentives totaling **\$550,405** to community groups, meeting planners, tournaments and event organizers which generated **25,901** additional room nights and **\$2.6 M (minimum)** in accommodations
- **100** meeting inquiries resulting in **66** new bookings
- A Hotel Deals marketing campaign. This program sold **4,104** packages generating **\$500,000+** for accommodations plus **\$82,000** in gift cards were purchased from local retailers and attractions as part of package
- **25** Time Out Sport Networking sessions were held to increase collaboration and hosting capacity of sport organizers and businesses.

Additional marketing included attending trade shows, sales missions, developing media/travel trade tours, videos, virtual tours, print and online ads, (resulting in **50+M new impressions**), social media campaigns and a website redesign. Other initiatives included expanding visitor services at the waterfront and events, translating a welcome flyer in 10 languages, new product development in culinary (Taste of Burlington), cycling and sport.

When HST was implemented the Provincial government investigated the possibility of having a province wide fee and provided DMO's who had been collecting a DMF with transition funds. In 2012, the province decided not to implement a provincial fee and the transition funding ceased. Some DMO's like Ottawa and Toronto immediately reinstated a DMF, however in Burlington this did not happen. Most of the Burlington DMF reserve funds were depleted and the DMF initiatives and staff support were wound down in the fall of 2014.

Since the DMF funding has ceased, TB has not had the resources to promote the city to these segments and incent groups to attract new visitation and business.

### **Burlington Hotel/Motel Inventory**

In Burlington there are currently 10 hotels and 7 motels totaling 1,273 rooms. Two new hotels will open in the next 12-18 months which will add another 258 rooms to the inventory for a total of 1,531 rooms. BEDC has received several inquiries about vacant land suitable for hotel properties so there is potential for future growth. With the addition of the new Courtyard by Marriott in late 2018 occupancy rates have declined due to more room inventory and it is estimated that once the new hotels open occupancy will be similarly impacted.

### **Strategy/process**

A staff working group consisting of members from Tourism Burlington, the City Manager's Office, Recreation Services and Finance has been meeting since November 2017 to review the MAT and track municipal best practices.

TB has been meeting with stakeholders to discuss the possibility of a tax being implemented. The cultural and outdoor attractions and event stakeholders are very enthusiastic at the possibility of new tourism resources that would result in more collaboration on marketing and increased visitation and revenue. The MAT has been an ongoing update item at TB Board and Marketing meetings.

TB has met individually with most hotel managers/owners and an information meeting was held in June 2019 for hotels, motels and B&B's. The comments from these discussions are summarized as follows:

- If this tax is implemented the accommodators want to be **involved in the direction of these funds**. Many stated that Burlington would be at a competitive disadvantage without MAT as other adjacent DMO's are collecting this tax, enabling these cities to expand their marketing, offer incentives and develop more tourism products.
- Existing City funding for Tourism core services should **remain** in place as MAT should be considered **incremental funding** used to attract new business and visitation to the city.
- The municipal portion of the funds should be allocated to **tourism destination development initiatives** since it was generated by tourists staying at local accommodations.
- Short-Term Rentals (STR) should be included in this tax so there is a **level playing field**.
- It is very important to have city support for tourism particularly in the area of **sport tourism** where city facilities are primarily utilized.

## **Options for the City of Burlington**

The MAT provides an opportunity to enhance and expand tourism marketing and product development not only increasing hotel occupancy but expanding experiences for both visitors and residents who wish to staycation or host their friends and family in our city.

The MAT staff team has identified four options for Council's consideration regarding the MAT and is requesting direction on which of these should be the focus of a follow-up report. Refer to Appendix D for a financial summary of these options.

### **1. Status Quo – do not implement a MAT**

The City does have the option to not implement a MAT if it so chooses. The possible pros and cons of this option are:

#### **Pros**

- Visitors would not have to pay an additional tax i.e.: \$4 per \$100/room fee

#### **Cons**

- Lost opportunity to generate approximately \$750,000- \$1M in new revenue per year to support the local tourism industry.
- Many other adjoining municipalities are collecting a MAT. If a tax is not implemented in Burlington, TB would not have comparable resources to market and provide incentives to generate more economic impact for local

attractions, hotels, restaurants and events. This would be a competitive disadvantage.

**2. Implement the MAT and direct 100% of funds to tourism related destination development initiatives as follows:**

- a. Fifty per cent of the funds are provided to Tourism Burlington for enhanced tourism promotion and development (as per regulation).
- b. Direct the 50 per cent municipal portion of the funds to destination development and tourism related initiatives.

**Pros**

- MAT funding would be considered incremental to current core funding provided by the city and be used for new and enhanced tourism related initiatives since funds are generated from overnight stays at accommodations.
- Funding would be available to pay bid fees to attract events and the fees would not be funded from taxpayer supported sources.
- Funding would be available for collaborative projects with local cultural boards, Team Burlington and City departments that would benefit both visitors and residents.
- This option has been requested by local stakeholders (accommodators as well as TB).

**Cons**

- Some staff time would be required to set-up and implement and monitor the MAT remittance.

**3. Implement the MAT and direct funds as follows:**

- a. Fifty per cent of the funds are provided to TB for tourism promotion and development (as per regulation).
- b. The municipal portion of the funds (50 per cent) are used for city initiatives that have some correlation to tourism such as recreation, culture, collaborative marketing, event hosting, way-finding, product development, etc.

**Pros**

- Reduction of operating and/or capital budget costs in selected areas.



- Funding would be available for collaborative projects with local cultural boards, Team Burlington and City departments that would benefit both visitors and residents.

#### **Cons**

- Provincial rationale for enabling MAT was to provide new revenue to tourism organizations to generate more economic impact such as increases in meeting and conference bookings, accommodation room occupancy, gate admissions at attractions and events and dining at restaurants.
- During the initial consultations TB and local tourism businesses indicated that their preference was for the City to continue to financially support the tourism industry due to the community benefits of new events, businesses, City facility bookings and additional property taxes.

#### **4. Implement the MAT and direct funds as follows:**

- a. Fifty per cent of the funds are provided to Tourism Burlington for enhanced tourism promotion and development (as per regulation).
- b. The municipal portion of the funds (50 per cent) be directed to general revenues of the City.
- c. Tourism core funding be completely displaced.

#### **Pros**

- Reduction of operating and/or capital budget costs in selected areas.
- Funding would be available for collaborative projects with local cultural boards, Team Burlington and City departments that would benefit both visitors and residents

#### **Cons**

- Provincial rationale for enabling MAT was to provide new revenue to tourism to generate more economic impact such as increases in meeting and banquet bookings, accommodation room occupancy, gate admissions at attractions and events and dining at restaurants.
- TB and local tourism businesses when consulted indicated that the city should continue to financially support the tourism industry due to the community benefits of new events, businesses, city facility bookings and additional property taxes.

- If MAT legislation were to be rescinded in future it may be challenging to find city funding in the amount of \$400,000+ to reinstate core funding to TB if the funding had been rescinded while the MAT was in place.

Staff recommend that **options 2 and/or 3** be further investigated. This work would determine a process for the collection of the MAT, identifying existing City operating and capital funds that are allocated to tourism related services. The investigation would also review the 4-year work plan to identify priorities.

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## **Financial Matters:**

### **Total Financial Impact**

The City of Burlington currently provides core operating funding to Tourism Burlington in the form of a grant of approximately \$400,000 annually through the budget process. TB's 2019 gross operating budget is \$519,306.

An estimate of potential revenue has been provided by TB. Based on current information and statistics on rooms with 65 per cent occupancy and \$115 average daily room rate and applying the current industry consensus tax rate of a 4 per cent tax, Burlington could potentially generate approximately \$750,000 - \$1 million per year. Finance staff support the revenue estimate. This estimate considers the fact that several Burlington hotels target extended-stay visitors (30+ nights), which are exempt from the MAT. The estimate also excludes revenue from short-term rentals such as Airbnb and Bed & Breakfast accommodations who could be included in the future.

### **Source of Funding**

A new municipal accommodation tax generated from room nights at Burlington hotel/motel accommodations (less than 30 days). This tax would have minimal or no impact on Burlington residents as they rarely utilize hotel rooms in the city.

### **Other Resource Impacts**

The reasonable costs of collecting and administering the tax would be deducted from the total MAT collected before revenue sharing with TB. Collection of MAT would take place at the respective accommodation locations (e.g. hotel, motel ) and remitted to the city for administration and distribution in accordance with an approved by-law as directed by council. Further review and development of an implementation plan is required for the submission and distribution of the MAT including the by-law(s), procedures, resources as well as associated collection costs.

## **Connections:**

The local culture boards (Burlington Public Library, Art Gallery of Burlington, Burlington Performing Arts Centre, Burlington Museums) and Team Burlington (Burlington Economic Development, BIA's, City of Burlington, and Chamber of Commerce) are key tourism stakeholders who have limited marketing funds to attract new customers and visitors. A MAT could assist in collaborative marketing and product development such as creating new experiences and events, bulk media buys, package and itinerary development, updating of video and photo assets, event calendar integration, promotion at consumer shows and local events and updating tourism way finding signage just to name a few.

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## **Public Engagement Matters:**

If the MAT is implemented the City would work together with its partners to communicate information to residents, consumers and accommodators.

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## **Conclusion:**

The Province of Ontario has granted municipalities the authority to implement a tax on transient accommodations. This tax could generate an estimated \$750,000 - \$1 million annually to support tourism initiatives and increase economic impact for the city. It is estimated that **1.4m visitors** come to Burlington annually, spending **\$101M**<sup>3</sup>. Twenty-five per cent of these visitors stay overnight, most with friends and family. There are **1,889** tourism businesses and **24,491** tourism jobs in Burlington.<sup>4</sup>

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<sup>3</sup> Travel Survey of Residents of Canada, Statistics Canada

<sup>4</sup> Tourism by Federal Riding, Tourism HR Canada

Respectfully submitted,

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**Appendices:**

- A. Tourism Board of Directors MAT Recommendations
- B. Tourism in Halton
- C. Tourism Burlington
- D. Municipal Accommodation Tax Options Financial Summary

**Notifications:**

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**Report Approval:**

All reports are reviewed and/or approved by Department Director, Director of Finance and Director of Legal. Final approval is by the City Manager.