

Background

In April 2017 the Province of Ontario passed Bill 127, the “Stronger, Healthier Ontario Act”, which permits municipalities in Ontario the opportunity to charge a transient accommodation tax, also called a “Hotel Tax”. In a letter to the Head of Council dated November 24, 2017 from The Honourable Bill Mauro, the province gives the choice to municipalities to implement a hotel tax. The provincial government also recognizes the importance of balancing the interests of the municipal sector with ensuring the vitality of Ontario’s tourism sector.

The letter advised that the relevant legislative changes would take effect on December 1, 2017 and noted several highlights of the regulations:

- Municipalities will be required to share the revenues with not-for-profit tourism organizations “for the exclusive purpose of promoting tourism”, including product development;
- Where no formal Destination Marketing Program (DMP) exists (as in the case of Greater Sudbury), at least 50 per cent of the revenues from the tax - less the municipality’s reasonable costs of collecting and administering the tax - must be shared with an eligible tourism organization;
- The legislation grants municipalities the authority to impose this tax by enacting appropriate bylaws;
- The regulations leave the design, administration and collection of the tax at the discretion of the municipalities themselves; and
- The regulations do exempt transient accommodations associated with universities and colleges, but do not exempt other transient accommodation providers such as AirBNB and other rentals-by-owner accommodation providers.

With respect to Greater Sudbury, the City of Greater Sudbury Community Development Corporation (CGSCDC) is well positioned to act as the receptive non-profit organization for 50% of the net revenues. This organization currently administers and guides investments on behalf of the City of Greater Sudbury through the Community Economic Development Fund as well as the Arts & Culture Grant Program. In addition, the Board of Directors of the CGSCDC is independent of the City and includes community representation from diverse sectors, including Tourism. The Corporation oversees the implementation of the Community Economic Development Strategic Plan *From the Ground Up*, which has identified tourism as a key sector of Greater Sudbury’s economy and a priority area for ongoing investment.

Staff are recommending that the CGSCDC serve as the recipient organization, with appropriate structures and governance to deliver relevant programs for the tourism sector, together with a clear focus and mandate to grow the tourism industry. The overall intent would be to reinvest revenues into the tourism sector under the guidance of the sector stakeholders themselves.

Pending Council approval, staff will report back with a detailed proposal for structure and implementation of the program.

Analysis/Rationale

Currently Greater Sudbury has over 2,000 rooms collectively, offered by more than 45 businesses operating in the accommodation sector, from Bed and Breakfast accommodators to nationally-branded hotels. There are also between 77 and 83 room listings on Airbnb within Sudbury.

Based on the average occupancy rates of the branded hotels in Greater Sudbury over the past three years, it is estimated that a 4% room tax could generate approximately \$1,680,000 per year. It should be noted that this number does not include the total number of rooms offered by all transient accommodations in the city, such as smaller motels and similar properties, but it does provide an approximate forecast.

As stated previously, the province has determined that 50% of those net revenues would need to be shared with a not-for-profit tourism organization “for the exclusive purpose of promoting tourism”.

Best practices now being followed propose that the 4% hotel tax would be applied to the rental rate per room, per night, following the existing model generally used for Destination Marketing Fees. This approach, which is familiar to most consumers, clearly indicates the fee charged to the customer on the final bill as an individual line applied to each night of the hotel or motel stay, with a description showing “Municipal Accommodation Tax”, as required by the provincial regulations.

In years past, CGS staff have engaged local Sudbury hotel partners in exploration of a voluntary destination marketing program with a corresponding Destination Marketing charge or fee (frequently referred to as a “Destination Marketing Fee”). Hotels have emphasized that a key component of their own participation in collection of a fee from their customers is that Council would first commit to maintaining current levels of funding provided for the Tourism sector through CGS operating budgets, rather than seeking to use new revenue to replace municipal funding.

While additional consultation is required, initial discussions with industry stakeholders in Greater Sudbury indicate consensus that Transient Accommodation Tax revenue presents new opportunities to market Greater Sudbury, including attraction of additional meetings and convention business and enhancement of the leisure marketing component, both of which represent an important boost to hotel room-nights sold within the city.

Short term rentals offered by home owners are not exempt from the transient accommodation tax; however, the nature of the business and the varying locations and availability of the rooms would present a challenge to the municipality in adequately tracking and collecting the tax from owners. Should Council wish to proceed with the tax for Greater Sudbury, staff will outline a recommended approach for hotels and will explore best practices for rental-by-owner accommodations being developed in other Ontario municipalities pursuing the accommodation tax.

Tourism Investment

Staff are recommending that the 50% of the net revenues designated exclusively for tourism promotion and development would be used to enhance existing operational dollars with potential in the following areas:

- Enhance the Greater Sudbury Tourism Event Support program by increasing the funding and providing additional resources for new events, festivals, meetings, conventions and sport tournaments
- Support Bid opportunities through event support funding that can be provided in support of costs associated with major event bid opportunities, such as was required for the City's 2021 Canada Summer Games bid efforts
- Broaden reach of targeted marketing to strategic sectors, including Meetings, Conventions & Sport and student attraction
- Advance destination and product development investments, such as implementing a wayfinding strategy.

Given the major investments and new facilities expected in Greater Sudbury in the next several years, the timing of this new revenue is optimal for gaining a competitive edge as a destination of choice for meetings, conventions and sports tournaments and events.

Consultation

As noted, consultation with the hotel and motel industry in Greater Sudbury will be an important next step, and this will be conducted by Economic Development staff. Staff will conduct outreach to both management staff and ownership groups of hotels, together with motel businesses and Bed & Breakfast operators in order to solicit feedback on the best approach to collecting and investing the Hotel Tax revenues. This input will help to ensure the implementation process for the tax has regard for how these businesses are operated, including how room-night bookings are tracked, and how occupancy can be audited on a regular basis.

The feedback and engagement of these businesses will be important to ensure the tax is being collected in a fair and transparent manner, and the dollars are being reinvested into the industry in an effective way to maximize the benefits for the industry as a whole.

Summary

Should the Committee provide direction to proceed with a Transient Accommodation Tax for Greater Sudbury, the following next steps are recommended:

- Proceed with industry consultation as well as the review of best practices being developed in other municipalities

- Designate funding towards the Event Centre as the municipality's share of the funds (50% of net revenue)
- Designate the CGSCDC as the appropriate non profit recipient organization.

The recommended role of the CGSCDC would be to:

- Act as the designated recipient for the balance of funds
- Provide guidance and oversight based on their positive track record of funding program administration. Ensure an alignment based approach on tourism objectives and sector needs (including the Tourism Objectives outlined in the Community Economic Development Strategic Plan *From the Ground Up*)

Staff will report back to the Finance & Administration Committee in Q2 2018 with a detailed proposal for the structure and implementation of the program along with the appropriate enacting by-laws.

With Council's approval, it is anticipated that the implementation of the Hotel tax can come into force on July 1, 2018.

Resources Cited

Arena/Event Centre Update, City Council - June 27, 2017:

<https://agendasonline.greatersudbury.ca/index.cfm?pg=feed&action=file&agenda=report&itemid=1&id=1130>