

Report to Council



Date: July 26, 2021
To: Council
From: City Manager
Subject: MRDT Renewal and Tourism Partnership Update
Department: Partnership Office

Recommendation:

THAT Council receives, for information, the report from the Partnership Office, dated July 26, 2021, with respect to renewal of the Municipal and Regional District Tax and a five-year Agreement with Tourism Kelowna for the provision of tourism services;

AND THAT Council approves the City entering into a five-year Agreement with Tourism Kelowna for the provision of tourism services, with the option to renew for an additional five-year term, in the form attached as Appendix A to the Report from the Partnership Office, dated July 26, 2021;

AND FURTHER THAT the Mayor and City Clerk be authorized to execute the Agreement with Tourism Kelowna on behalf of the City of Kelowna.

Purpose:

To approve a five-year Agreement with Tourism Kelowna and to update Council regarding progress toward renewal of the three percent Municipal and Regional District Tax.

Background:

Pursuant to provincial requirements, an application to renew the three percent Municipal and Regional District Tax (MRDT) on sales of accommodation will be submitted by the City of Kelowna ("City") by January 1, 2022. As part of the renewal application, a draft Five-Year Strategic Business Plan ("Plan") has been prepared and work is underway to confirm the accommodation sector's support for the Plan and MRDT renewal. The minimum required level of support is at least 51 percent of the accommodation providers representing at least 51 percent of the total number of units of accommodation offered by those providers.¹

¹ [British Columbia Municipal and Regional District Tax Program Requirements](#), Summer 2018, page 8.

In conjunction with MRDT renewal, the City and Tourism Kelowna have revisited existing agreements and collaboratively developed a new five-year agreement which sets out tourism services to be provided by Tourism Kelowna, MRDT administration and reporting, payment of an annual grant from the City and objectives, roles and principles associated with a more holistic and integrated approach to managing tourism and the effects of tourism in the community.

Previous Council Resolutions

Resolution	Date
THAT Council directs staff to prepare Service Agreements with Tourism Kelowna to be brought back to Council for approval.	August 8, 2016
[THAT] Council authorizes the City to enter into the [Municipal & Regional District Tax] Reporting Service Agreement with Tourism Kelowna Society in the form attached to the Report from the Financial Projects Manager dated December 5, 2016	December 5, 2016
THAT Council receives for information the report from the Partnership Office dated March 22, 2021 regarding the partnership with Tourism Kelowna and the process toward renewal of the Municipal and Regional District Tax.	March 22, 2021

Discussion:

a) New five-year Agreement

The development of an agreement which clarifies the working and funding relationship between the City and Tourism Kelowna has been a long-standing objective. Renewal of the MRDT afforded an opportunity to reflect on objectives, roles and planning alignment; the pandemic experience revealed a recalibrated inter-dependency between tourism demand, the local economy, resident sentiment and quality of life. Thoughtful and collaborative preparation of a new agreement in these circumstances was timely and necessary.

The Agreement between the City and Tourism Kelowna attached as Appendix A was approved by the Tourism Kelowna Board of Directors on July 9, 2021.

Highlights of the Agreement:

- a five-year term aligned with the provincial Order in Council authorizing the MRDT, with an option for one renewal term of five years;
- in Schedule A, a description of tourism services to be provided by Tourism Kelowna;
- in Schedule B, objectives, roles and guiding principles for future collaboration between the City and Tourism Kelowna toward a Tourism Master Plan and Destination Management model which improves planning alignment and creates a roadmap for the right kind of tourism growth which can deliver positive results for all stakeholders, including the community;
- encompasses the provisions of a previous Municipal and Regional District Tax Reporting Service Agreement approved by Council on December 5, 2016 (as amended) relating to roles and responsibilities for provincial MRDT reporting requirements;
- documents the annual operating grant provided by the City to Tourism Kelowna, with a clear process for requesting additional support; and

- outlines various accountabilities for acknowledgement of City support and annual reporting.

b) Update regarding MRDT renewal

General MRDT revenues are approximately 60% of Tourism Kelowna's annual budget. Renewal of MRDT is essential to continued success in promotion of Kelowna and area as a destination.

The application for renewal will be submitted to the Province no later than December 17, 2021 to meet the requirement for submission of a renewal application at least 6 months before the expiry of the current Order In Council on July 1, 2022. If approved, the renewed three percent MRDT would come into effect on July 1, 2022 through a new Order in Council.

Tourism Kelowna's role is to complete components of the renewal application package including demonstrated support from tourism industry stakeholders, preparation of a five-year Strategic Business Plan for expenditure of MRDT, and a one-year tactical plan for 2022.

As designated recipient of MRDT, the City's role is to review, finalize and approve the renewal application package and secure support from the Regional District of Central Okanagan and City Council, including approval of a new taxation bylaw.

The draft five-year Strategic Business Plan is attached as Appendix B. In addition to previous industry presentations and engagement sessions in May and June 2021, information about the renewal process, the five-year Plan and confirming support is available through the [Tourism Kelowna website](#). As of July 13, 2021, indications of support are:

14 properties – 44% of the 51% requirement (32 properties = 51% of 64 total properties)
2,211 rooms – 88% of the 51% requirement (2,505 rooms = 51% of 4,912 total rooms)

Tourism Kelowna will continue with follow up, one-on-one outreach and sector group meetings with industry stakeholders throughout July and August 2021. A two-phase local resident survey was also completed by Tourism Kelowna in June 2021; compiled results are pending.

Staff will return with a follow up report in October 2021 with the finalized application for MRDT renewal and a proposed taxation bylaw.

Conclusion:

A new five-year agreement between the City of Kelowna and Tourism Kelowna provides additional clarity in an important and active working relationship and sets the stage for the right kind of tourism growth through more aligned planning and improved destination management.

The process toward renewal of MRDT is well underway and within anticipated timelines.

Internal Circulation:

Partnerships & Investments
Corporate Finance
Office of the City Clerk
Policy & Planning
Communications
Active Living & Culture

Considerations applicable to this report:

Legal/Statutory Authority:

[Section 123 of the Provincial Sales Tax Act](#) imposes a tax of up to three percent on the purchase price of accommodation in a specified geographic area of the province ('designated accommodation area') on behalf of a designated recipient. This tax is in addition to the provincial sales tax of eight percent of the purchase price of accommodation.

The [Designated Accommodation Area Tax Regulation](#) sets out the authorized purposes for funds collected under the MRDT program as follows: tourism marketing, programs and projects, initiatives respecting affordable housing, and any other prescribed purposes as set out in the regulation.

Legal/Statutory Procedural Requirements:

The [Municipal and Regional District Tax Program Requirements](#) are the basis for the application/renewal process, reporting, and compliance activities described in this report and the Agreement.

Financial/Budgetary Considerations:

The MRDT rate in Kelowna and area started at two percent in 2009 and increased to three percent in 2017.

General MRDT revenues reached \$3,126,416 in 2019, which was a banner year. In 2020, these revenues dropped by approximately 30 percent to \$2,036,004.

100 percent of general MRDT revenues received by the City from the Province are paid to Tourism Kelowna to support tourism marketing, programs, and projects.

In late 2018, through the introduction of MRDT program changes, the three percent tax was applied to sales of online accommodations with an option for municipalities to use all or part of these revenues ('OAP revenues') to address affordable housing needs. OAP revenues received in 2019 were \$470,694 and in 2020 were \$379,394.

100% of OAP revenues are retained by the City of Kelowna and allocated to the OAP Reserve Fund. The Fund is used to address local affordable housing needs in accordance with City policies, Council direction and annual plans submitted to the Province. In the last year, OAP revenues have enabled land acquisition for purpose-built affordable rental housing.

Figure 1 summarizes general MRDT and OAP revenues received by the City of Kelowna in 2021 to date.

Payment Month	Received	General MRDT	OAP
December 2020	2021-03-03	60,103.82	43,422.83
January 2021	2021-03-24	65,395.91	
February 2021	2021-05-03	77,010.81	973.58
March 2021	2021-06-02	106,659.81	164,976.49
April 2021	2021-06-22	96,010.82	
TOTAL YEAR TO		\$405,181.17	\$209,372.90

Figure 1

In addition to general MRDT revenues, the City of Kelowna provides an annual operating grant of \$344,430 to Tourism Kelowna. MRDT program guidelines provide that '[f]unds from the MRDT program should augment current funding and cannot be used to replace existing sources of tourism funding in a community.'

Considerations not applicable to this report:

Existing Policy
External Agency/Public Comments
Communications Comments

Submitted by: S. Kochan, Partnership Manager

Approved for inclusion: B. Evans, Partnership Office Director

Attachments: 1. Appendix A: Agreement
2. Appendix B: Draft Five-Year Strategic Business Plan

cc: S. Little, Corporate Finance Manager
J. Moore, Long Range Policy Planning Manager
D. Nicholas, Sport and Event Services Manager