

Report to Council



Date: October 25, 2021
To: Council
From: City Manager
Subject: MRDT Renewal Application and Taxation Bylaw
Department: Partnership Office

Recommendation:

THAT Council receives for information the report from the Partnership Office dated October 25, 2021 regarding an application to renew the Municipal and Regional District Tax;

AND THAT Council supports an application to renew the Municipal and Regional District Tax at three per cent;

AND THAT Council authorizes the Division Director, Financial Services, to sign the documents relating to an application to renew the Municipal and Regional District Tax at three per cent;

AND FURTHER THAT Bylaw No. 12290 being the City of Kelowna Municipal and Regional District Tax Bylaw be forwarded for reading consideration.

Purpose:

To inform Council about the application to renew the three per cent Municipal and Regional District Tax and present a Tax Bylaw for Council's consideration.

Background:

The City of Kelowna is a designated recipient of revenues generated through the Municipal and Regional District Tax (MRDT). The majority of these revenues are paid to Tourism Kelowna to enable tourism marketing, programs and projects. Pursuant to provincial requirements, implementation of the tax is for a five-year period and an application to renew the tax must be submitted at least 6 months prior to the repeal date. An application to renew the three per cent Municipal and Regional District Tax (MRDT) on sales of accommodation will be submitted by the City in December 2021. The application includes multiple components, prepared by Tourism Kelowna and City staff. This report provides information about the application and a new Tax Bylaw which is part of the application package.

Previous Council Resolution

Resolution	Date
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.	July 26, 2021
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:

General MRDT revenues are approximately 65 per cent 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 per cent MRDT would come into effect on July 1, 2022 through a new Order in Council.

Tourism Kelowna prepared several 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 and budget for 2022. These components have been reviewed by Financial Services and staff are now finalizing the City's components of the application package including approval of a new taxation bylaw.

The draft renewal application is attached as Appendix A. Highlights include:

- a) The City of Kelowna will remain as the designated recipient of the tax, with full responsibility for compliance with all MRDT program requirements. Through the agreement with Tourism Kelowna, the City has established methodology and timelines for preparation and review of the necessary reporting. The Tourism Kelowna Board of Directors formally monitors strategy and annual operations plans, as well as progress and financial reports, culminating in an annual audit review by KPMG;

- b) The five-year strategic plan identifies overall goals, objectives and targets for Tourism Kelowna's marketing activities. Success measures include:
- A three per cent annual increase in visitation numbers for the September to May period;
 - By 2023, visitation numbers and hotel occupancy at pre-COVID levels;
 - Increases in the average spending per party in the destination;
 - Securing dates for Kelowna hosting major events such as the Brier and Memorial Cup.
- c) Some significant shifts are anticipated in the next five years, including:
- Ongoing post-COVID economic recovery and changing service needs of tourism stakeholders;
 - Transitioning, through creation of a Tourism Master Plan, from destination marketing to destination development/management;
 - Recognition of the vital role of residents in supporting sustainable growth of tourism; and
 - Increasing inter-community collaboration and local activation.

An important component of the MRDT renewal application is evidence of sufficient support from accommodation providers who offer taxable accommodation. The minimum required level of support is at least 51 per cent of the accommodation providers representing at least 51 per cent of the total number of units offered by those providers. Figure 1 indicates that the level of support reflected in the application exceeds the minimum requirements.

Support Summary				
	Units/Rooms	Percentage	Properties	Percentage
In Support	3492	77%	38	58%
Not in Support	729	16%	9	14%
Did Not Respond	332	7%	18	28%
Total	4553	100%	65	100%

Figure 1

Conclusion:

Tourism Kelowna is an important partner with the City of Kelowna in fostering and promoting high quality experiences for visitors and sustaining a vibrant local economy. In 2022, work will resume on development of a Tourism Master Plan which will create a roadmap for the right kind of tourism growth through more aligned planning and improved destination management.

Renewal of MRDT assures the continuation of revenue streams which are valuable resources to both Tourism Kelowna and the City of Kelowna for the delivery of programs and services which benefit the community.

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.

City of Kelowna Municipal and Regional District Tax Bylaw 11258 governs the current three per cent accommodation tax and is in effect until the provincial repeal date of July 1, 2022.¹

A new City of Kelowna Municipal and Regional District Tax Bylaw is a required component of the renewal application.

Legal/Statutory Procedural Requirements:

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

Financial/Budgetary Considerations:

MRDT first came into effect in Kelowna in 2004 at a rate of two per cent. In 2017, the rate was increased to three per cent.

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

100 per cent 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 per cent tax was applied to sales of online accommodations with an option for municipalities to use all of part of these revenues

¹ Designated Accommodation Area Tax Regulation, B.C. Reg. 93/2013, through Order in Council No. 052 February 17, 2017.

('OAP revenues') to address affordable housing needs. OAP revenues received by the City 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. Appendix 1.8 of the renewal application sets out the 2022 Affordable Housing Plan; OAP revenues will continue to be accumulated in the OAP Reserve Fund and will be expended to acquire land for affordable housing projects.

Figure 2 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	-
May 2021	2021-07-30	159,330.52	973.57
June 2021	2021-08-30	366,035.43	238,873.35
July 2021	2021-10-06	596,497.37	-
TOTAL YEAR TO DATE		\$1,527,045.07	\$449,219.82

Figure 2

In addition to general MRDT revenues, the City of Kelowna provides an annual operating grant of \$344,430 to Tourism Kelowna.

On July 26, 2021, Council approved a new five-year agreement with Tourism Kelowna which sets out tourism services to be provided by Tourism Kelowna, MRDT administration and reporting, payment of the annual grant, and objectives, roles and principles associated with a more holistic and integrated approach to managing tourism and the effects of tourism in the community.

Considerations not applicable to this report:

Existing Policy
Communications Comments
External Agency/Public Comments

Submitted by: S. Kochan, Partnership Manager

Approved for inclusion: Derek Edstrom, Division Director, Partnerships & Investments

Attachments: Appendix A: draft MRDT Renewal Application

cc: S. Little, Corporate Finance Manager
J. Moore, Long Range Policy Manager