

PLANNING AND DEVELOPMENT COMMITTEE

*HIS WORSHIP, THE MAYOR
AND COUNCILLORS*

SUBJECT: MUNICIPAL AND REGIONAL DISTRICT TAX (MRDT)

RECOMMENDATIONS:

1. THAT the Council approve an application to the Province to increase the Municipal and Regional District Tax (MRDT) from two percent to three percent, effective 01 January 2022.
2. THAT Council approve an application to the Province for the use of MRDT net revenue from Online Accommodation Platforms (OAP) for affordable housing initiatives, effective 01 January 2022.

REPORT

The Planning and Development Committee, at its meeting held on 2020 November 24, received and adopted the attached report seeking Council authorization to make an application to the Province for an increase in the Municipal and Regional District Tax (MRDT) rate and for the use of MRDT revenue from Online Accommodation Platforms for affordable housing initiatives. Arising from discussion, the Committee **AMENDED** recommendation No. 2 to read 'the use of MRDT net revenue'.

Respectfully submitted,

Councillor P. Calendino
Chair

Councillor S. Dhaliwal
Vice Chair

Copied to: City Manager Director Corporate Services Director Finance Director Planning and Building Director Public Safety and Community Services City Solicitor

TO: CHAIR AND MEMBERS PLANNING AND DEVELOPMENT COMMITTEE **DATE:** 2020 November 17

FROM: DIRECTOR FINANCE **FILE:** 16000-20

SUBJECT: MUNICIPAL AND REGIONAL DISTRICT TAX (MRDT)

PURPOSE: To request approval to make application to the Province for an increase in the Municipal and Regional District Tax (MRDT) rate and for the use of MRDT revenue from Online Accommodation Platforms for affordable housing initiatives.

RECOMMENDATIONS:

1. **THAT** the Planning and Development Committee recommend Council approve an application to the Province to increase the Municipal and Regional District Tax (MRDT) from two percent to three percent effective 01 January 2022.
2. **THAT** the Planning and Development Committee recommend Council approve an application to the Province for the use of MRDT revenue from Online Accommodation Platforms (OAP) for affordable housing initiatives effective 01 January 2022.

REPORT**1.0 INTRODUCTION**

At the 2020 July 06 Council meeting, a report from the Planning and Development Committee was presented to Mayor and Council outlining recommendations for the creation and sustainability of a regulatory and enforcement framework for short term rentals in Burnaby.

Item 1d of the recommendations was to “authorize the Finance Department to provide an analysis on the guidelines and limitations to the use of the portion of the Municipal and Regional District Tax (MRDT) revenues generated from short term rentals towards affordable housing initiatives.”

This report provides the information requested from the Finance Department.

2.0 POLICY SECTION

Goals

- A Dynamic Community
 - Economic opportunity –
Foster an environment that attracts new and supports existing jobs, businesses and industries
 - Community development –
Manage change by balancing economic development with environmental protection and maintaining a sense of belonging

- A Thriving Organization
 - Communication –
Practice open and transparent communication among staff, Council and the community

3.0 BACKGROUND

3.1 *Municipal and Regional District Tax (MRDT)*

In 1987, BC Provincial Legislation introduced the MRDT to provide funding for local tourism marketing, programs and projects. The MRDT applies to the sale of short term accommodations, contributes to the goals of growing BC revenues, visitation and jobs, and amplifies BC's tourism marketing efforts. The City of Burnaby received Provincial approval in 2004 for the establishment of Tourism Burnaby – an independent Destination Marketing Organization (DMO) that develops and supports tourism promotional activities to increase visitation to Burnaby, British Columbia. Tourism Burnaby comprises an Executive Director and three marketing/support staff. The Board is composed of seven directors: two directors representing hotels with less than 100 rooms, two directors representing hotels with 100 or more rooms, two directors representing and nominated by the City of Burnaby, and one director representing and nominated by the Burnaby Board of Trade.

The MRDT rate is set by the local government with approval from the Ministry. The tax is collected by the Provincial government and remitted to the City. The MRDT received by the City is provided to Tourism Burnaby and approvals from the Province for the distribution of the MRDT are for a five-year period, with a renewal request at the end of the term. Burnaby's last MRDT renewal was June 2019 and runs until June 2024. The approved MRDT rate for Burnaby accommodation sales is two percent.

Effective 2015 September 01, Provincial legislation has allowed for the maximum MRDT tax rate to be three per cent. In order to increase the MRDT tax rate from two percent to three percent, an application must be submitted to and approved by the Province. Communities that choose to increase their MRDT rate to three per cent must also sponsor a new Provincial Tourism Events Program designed to help support the planning, marketing and organization of provincially significant events and celebrations that offer a high tourism value.

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The MRDT distributions to Tourism Burnaby are broken down into two categories: general MRDT revenues, which are generated from short term stays at hotels and motels; and, Online Accommodation Platforms (OAP) which are online marketplace booking systems, such as Airbnb, also for short term stays.

3.2 MRDT for Affordable Housing

In 2018, the Provincial Budget added affordable housing as a permissible use of MRDT funds as a means of supporting and addressing local and regional housing needs. This addition provides the flexibility to define, identify and fund local affordable housing initiatives. Utilization of these funds for affordable housing initiatives requires additional reporting to the Ministry to ensure ongoing accountability. In addition, stakeholder consultation and engagement must be increased and remains mandatory.

With the extension of use of the MRDT for affordable housing initiatives, funds can be used from either the general or OAP MRDT revenues. Depending on the fund sharing model chosen, specific documentation and stakeholder engagement would be required. For example, the OAP portion even at two percent can be used for affordable housing initiatives and be reported to the Province as part of the annual November reporting requirements. However, the use of a portion of the general MRDT revenues for affordable housing initiatives would require approval from 51% of the accommodation provider stakeholders. What must be agreed upon between the DMO and the municipality is the percentage of the MRDT that will be used for affordable housing initiatives and from what revenues; general, OAP or both.

The model most prevalent between DMOs and municipalities that choose to claim a portion of the MRDT for affordable housing, is an increase in the MRDT to three percent with the full OAP portion being transferred to affordable housing initiatives. The general portion remains with the DMO for its initiatives.

The MRDT recipients may use revenues for any of the following affordable housing initiatives as per the Province:

- Acquiring, constructing, maintaining or renovating housing or shelter;
- Acquiring or improving land used for, or intended to be used for, housing or shelter;
- Supporting the acquisition, construction, maintenance, renovation or retention of housing or shelter or the acquisition or improvement of land intended to be used for housing or shelter;
- Supporting housing, rental or shelter programs; or
- Paying expenses related to the administration or disposal of housing, shelter or land acquired with money paid out of MRDT revenues.

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The utilization of MRDT funds for affordable housing will increase the annual reporting requirements to the Ministry, and may require a heightened level of stakeholder engagement, both of which would require additional resources from Tourism Burnaby. The analysis, preparation and submission would be conducted by Tourism Burnaby with assistance from City staff as needed. A service level agreement between municipalities and DMOs ensure responsibilities are clear and the administrative funding costs are transparent.

4.0 CURRENT MARKET AND RECOVERY

In 2019, to fund Tourism Burnaby operations, the MRDT revenue at two percent generated \$1,694,758 with \$1,380,124 contributed from hotel and motel stays and \$316,347 from OAP short term rentals. Tourism Burnaby's 2019 expenditures were \$1,094,230. Had the MRDT been three percent and the full OAP revenues provided for affordable housing initiatives, the contribution would have been \$474,520 to housing programs. This revenue can provide impactful program funding for housing in both the short and long term.

The current tourism market under the COVID-19 pandemic however is extremely weak. Most British Columbia DMOs have laid off staff and some have shutdown operations. Tourism Burnaby operates with five staff, an Executive Director and four specialists. To date, Tourism Burnaby has not laid off any staff and continuously engages partners so activities can resume and be brought to Burnaby as soon as possible, post-pandemic.

Revenues in the 2020 budget have been adjusted by the Tourism Burnaby Board of Directors to reflect the current market and industry. Total income for 2020 is now projected to be 1/3 of the 2019 totals. This would represent \$352,000 from MRDT general revenues and \$151,000 from OAP. This is a significant reduction in an annual operating budget that was initially set at \$1.2M. Quick action and significant cost cutting measures have meant the ability to maintain full staffing while supporting the entire Burnaby hospitality industry with support programs and initiatives.

There are several recovery model projections taking into account various factors such as a vaccine, border opening and domestic and international travel resumption. Currently, best case models for 2021 put short term stays at 50% of 2019 levels. Tourism Burnaby, however, projects the recovery in the tourism industry will take much longer, with a full recovery possibly taking longer, potentially out to 2024.

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5.0 PROPOSED INCREASE IN MRDT

An increase in the MRDT from two percent to three percent is proposed and, if approved, would align the City of Burnaby with the MRDT rate of other neighbouring municipalities.

For a DMO that is currently in the middle of a five year term, a full renewal application is required to request an increase to the three percent MRDT. The application must be submitted nine months prior to the target effective date and, if OAP revenues will be spent on affordable housing initiatives, the application must include an Affordable Housing MRDT Plan. Once approved, the DMO's five year term will be reset and will start from the approval date at the new MRDT rate.

A review of 41 municipalities in British Columbia that participate in the MRDT program, identified that 30 had an MRDT rate of three percent and the remaining 11 (including Burnaby) currently have a rate of two percent. The most common affordable housing revenue sharing model from these 30 municipalities provides the general MRDT revenues to the DMO and the full OAP generated revenues to affordable housing initiatives.

6.0 SUMMARY

Implementing a three percent MRDT for Burnaby short term accommodations and providing all OAP revenues from the program to City of Burnaby affordable housing initiatives, managed by the City of Burnaby, will have a profound and positive effect on the entire Burnaby community.

The City of Burnaby's Affordable Housing Community Benefit Bonus Reserve is set up to meet the Province's criteria for affordable housing initiatives. The OAP MRDT revenues would be collected in this reserve until used for the applicable affordable housing initiatives.

A three percent MRDT requires additional reporting and stakeholder engagement and additional synergies between City of Burnaby and Tourism Burnaby staff. A high level of engagement already exists between several City departments and Tourism Burnaby, and the partnership would be expanded to allow for the respective initiatives to be carried out successfully. The additional one percent generated by Tourism Burnaby on the MRDT for general revenues would cover any additional costs incurred by the organization for the increase in the MRDT rate and the contribution of the OAP revenues for affordable housing initiatives (i.e. application, stakeholder engagement, communication, reporting and any additional administration requirements).

While the benefits of implementing the three percent MRDT are clear, timing of such a change must be considered to ensure Tourism Burnaby can weather the current challenges faced by the pandemic in which revenues have been significantly reduced. Implementing the increase for 01 January 2022 would provide the time required to set the program up as well as obtain clarity over time around the tourism industry, and the local and global financial market recovery pace and scope. Implementing sooner may strain an already hard hit industry and hinder a quicker economic recovery.

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Due to the market uncertainty at this time, it is recommended that the distribution of the full OAP MRDT revenues to affordable housing initiatives be implemented on 01 January 2022 to coincide with the increase in the MRDT rate from two percent to three percent. This will allow Tourism Burnaby and City staff enough time to administer the changes, which would include a detailed service level agreement while meeting Ministry administration and reporting requirements.

7.0 RECOMMENDATION

It is recommended that the Planning and Development Committee recommend Council approve an application to the Province to increase the MRDT from two percent to three percent effective 01 January 2022, and to use the MRDT revenue from Online Accommodation Platforms for affordable housing initiatives effective 01 January 2022.



Noreen Kassam, CPA, CGA
DIRECTOR FINANCE

NK:DS / md

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Director Planning and Building
Director Public Safety and Community Services
City Solicitor