

Amendment to Contract Number 47021814 and Year Two Option Extension of the Agreement with the Greater Toronto Hotel Association for the Collection of Municipal Accommodation Tax - Hotel

Date: May 17, 2021
To: Executive Committee
From: Controller
Wards: All

SUMMARY

This report seeks Council's authority to amend Contract No. 47021814 to exercise the City's option to extend the contract with the Greater Toronto Hotel Association (GTHA) to provide collection of the Municipal Accommodation Tax - Hotel on behalf of the City of Toronto. Revenue Services is requesting an amendment to this contract to exercise the second one-year optional extension of the term as permitted under the contract, and to add funds of \$391,037 inclusive of HST and third party audit fees associated with this agreement.

The closure of Revenue Services' operations and reduced IT capacity at the beginning of the COVID-19 pandemic delayed the development of an internal collection system for Municipal Accommodation Tax – Hotel Tax (MAT) remittances directly from hotel operators. An amendment to this purchase order and extension to this contract will provide the additional time and resources required to complete the development, testing and implementation of the City's remittance and payment portal by Technology Services, and the transition of this service from the GTHA to the City. The contract with the GTHA can be cancelled upon implementation of the internal system, upon 60 days notice to the GTHA.

The original agreement specified a term of two years, ending on March 31, 2020, but allows the option for the City to renew for up to two (2) additional one-year terms. Exercising the option to renew for a second one-year term would extend the agreement from April 1, 2021 to March 31, 2022 on the same terms. The GTHA has continued to provide services under the contract in good faith since April 1, 2021 to the present.

RECOMMENDATIONS

The Controller recommends that:

1. City Council grant authority to the Director, Revenue Services to exercise the option to renew the agreement (Contract No. 47021814) with the Greater Toronto Hotel Association for the collection and remittance of the Municipal Accommodation Tax from hotels for an additional year effective from April 1, 2021 to March 31, 2022.

FINANCIAL IMPACT

The total potential cost of amending this contract for option year two is expected to be \$391,037 net of all taxes and charges. These costs are derived from the agreement between the City of Toronto and the Greater Toronto Hotel Association executed on April 1, 2018, as summarized in Table 1 below.

Table 1: Summary of annual costs to amend contract with GTHA for additional year (HST included)

Total Fixed Costs of Service Contract with GTHA to Collect Municipal Accommodation Tax - Hotel	\$265,050
Estimated Contracted Audit Services (\$1200-\$1500 per audit) ¹	\$81,000
HST	\$44,987
Total	\$391,037

1. Based on an average of 60 hotel compliance audits at an average cost of \$1,350 per audit conducted annually

This renewal allows for continuity in collecting the hotel portion of the Municipal Accommodation Tax (MAT) by the GTHA until such time that an internal collection system and on-line remittance and payment portal is launched. Funding for the internal operational costs of \$171,000 is available in the Office of the Controller's 2021 Approved Operating Budget. The additional cost of \$391,037 to exercise the option for an additional year will be netted against the 2021 program revenues.

The Chief Financial Officer and Treasurer has reviewed this report and agrees with the financial implications as identified in the Financial Impact section.

DECISION HISTORY

At its meeting on January 31, 2018, City Council adopted [Item EX 30.4: Implementation of Municipal Accommodation Tax \(Hotel and Short-Term Rental Tax\)](#) to implement a municipal transient accommodation sales tax. In adopting this report, Council directed the Interim Chief Financial Officer to report to the Executive Committee prior to exercising an option to extend the Greater Toronto Hotel Association contract, such

report to include a detailed cost-benefit analysis and any other implications associated with extending the agreement.

At its meeting on July 28, 2020, City Council adopted Item [EX15.12: Amendment to Purchase Order Number 47021814 and Extension of the Agreement with the Greater Toronto Hotel Association for the Collection of Municipal Accommodation Tax – Hotel](#) to exercise the option to renew the contract with the GTHA for one year.

COMMENTS

Background

The Municipal Accommodation Tax (MAT) was adopted through Item EX 30.4 on January 31, 2018 and implemented on April 1, 2018. Through the adoption of this report City Council also authorized the appointment of the Greater Toronto Hotel Association (GTHA) as the City's collection agent for the MAT-hotel.

A supplementary report Item EX 30.4a - Alternate Collection Options for Municipal Accommodation Tax (Hotel and Short-Term Rental Tax, provided various options that were considered for collection of the MAT. For the hotel portion, four options were considered including:

- Competitive bid process to engage an external collection agent
- Collection by the Canada Revenue Agency (CRA)
- Collection by the Greater Toronto Hotel Association
- Collection by the City using in-house resources

The appointment of the GTHA allowed for a quick turnaround of implementation and was the most cost effective option. With an existing data base of participating member hotels, the GTHA provided a financial system, reporting/remittance forms, protocols and an electronic reporting system used in the collection of Destination Marketing Program (DMP) fees. Auditing functions of the GTHA's financial and accounting systems and regular compliance auditing of member hotels were also made available to the City. These systems were modified to allow for collection of the MAT by the April 1st, 2018 implementation date. The term of this contract was set for a two (2) year period beginning April 1, 2018 to March 31, 2020, with the option to renew for two (2) additional one-year periods; option year 1 from April 1, 2020 to March 31, 2021 and option year 2 from April 1, 2021 to March 31, 2022.

An in-house model for collections was considered, but the costs were greater than the total costs of contracting out collection to the GTHA, and would have impacted revenues because the system would not have been ready in time for the April 1, 2018 launch date. Using the CRA or a competitive bid process was not a realistic option as collection of revenues would have been delayed for up to an additional two years for development and implementation.

Revenue Services Division will continue to investigate all methods of collecting this tax including internally developed online services or other digital platforms offered by external service providers.

Development of In-House Collection System

Extending the contract with the GTHA for an additional year costs approximately \$391,037 (for contracted services including HST, excluding the City's internal costs), compared to developing an in-house system at approximately \$589,530 (annual plus one-time development and set up costs). While continuing with the GTHA continues to be the most cost effective option at this time as illustrated in Table 2 below, the cost variance between the two options is almost equivalent with all costs considered.

Table 2: Comparing MAT-Hotel Collection Costs – City and GTHA

	City as Collection Agent			GTHA as Collection Agent	
Expenditure	Description	Cost		Description	Cost
Internal Salaries + Benefits	4 positions	\$383,000		1.5 positions	\$151,000
Internal Materials & Equipment	Office space & equipment, printing/ mailing costs	\$65,000		Office space & equipment, printing/ mailing costs	\$20,000
Contracted Services	External audit firm (including HST)	\$91,530		External audit firm (including HST)	\$91,530
One-time Development and set-up costs	I&T systems to track/report tax, cost to compile/maintain inventory	\$50,000		Using existing /augmented systems and database	\$0
Contract Collection Costs	Fee for Collection Service	\$0		GTHA's Collection costs (including HST)	\$299,507
Total Costs (including HST)		\$589,530			\$562,037

Moving to an internal collection system is expected to provide substantial benefits. City staff recently launched the payment and remittance system for the collection of Municipal Accommodation Tax for Short-term Rentals. Revenue Services worked with Technology Services and Municipal Licensing and Standards in creating a portal to allow short-term rental companies that facilitate or broker bookings via the internet to register and remit payment of the tax to the City. A second portal for the collection of the hotel portion of the MAT is in the early stages of development, leveraging resources from the short-term rental collection system.

The City will benefit in having complete control over the data and collection processes with an internal system for both hotel and short-term rental MAT remittances. Currently, the City relies on an annual compliance and financial controls audit with the GTHA. An in-house model would give the City full control over compliance audits and combining the hotel and short-term rental systems would create efficiencies for accounting, auditing and reporting functions. Transitioning from the GTHA to an in-house model will reduce the lag time in receiving data. Administering an internal system for both portals

over the long term will result in further cost efficiencies than continuing a relationship with the GTHA to collect the hotel portion.

An in-house system to collect MAT remittances remains in development with Technology Services. As a result of last year's suspension of normal operations within Revenue Services and Technology Services due to the COVID-19 pandemic, work on the creation and testing of the system was deferred. While the portal is in the early stages of development, the anticipated timeframe for completion is the fourth quarter of 2021.

Exercising option year two for a one-year renewal of the contract with the GTHA will allow for continuity of revenue collections until such time that the City's own collection systems are ready.

The terms of the agreement with the GTHA allow the City to cancel the agreement with 60 days prior notice. Currently, the agreement is in a transition period consisting of 90 days from the expiration of the contract which allows the GTHA to continue collecting the tax past the March 31st expiry date. In order to exercise option year two, Revenue Services requires an amendment to this contract to add funds in the amount of \$391,037 inclusive of HST, and including third party audit fees associated with this agreement.

CONTACT

Casey Brendon, Director, Revenue Services, Phone: (416) 392-8065, Fax: (416) 696-3778, E-mail: Casey.Brendon@toronto.ca

SIGNATURE

Andrew Flynn
Controller