THE MUNICIPALITY OF KINCARDINE

Municipal Accommodation Tax Model and Application Analysis

May 2025

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Prepared for the Municipality of Kincardine

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Introduction

This report has been prepared for the Municipality of Kincardine to explore the potential implementation of a Municipal Accommodation Tax (MAT). The MAT is a financial tool designed to support the tourism sector and to help fund local services and infrastructure utilized by visitors. As of November 2017, Ontario municipalities were granted authority to implement a MAT under Bill 127. Since then, approximately 75 municipalities across the province have adopted this tax. A MAT only applies to stays of under 28 days, as lengthier stays, regardless of the type of accommodation, falls under the Residential Tenancies Act and cannot be subjected to a MAT.

The report provides a revenue projection model for the Municipality of Kincardine, estimating the potential income that could be generated if a MAT were enacted. It also considers relevant tourism sector factors that should inform the decision-making process. Conservative estimates were used intentionally throughout the report, acknowledging that the figures are based on a number of assumptions and therefore carry a notable margin of error. This cautious approach was taken to hopefully avoid overstating the potential revenue.

This report uses the best available data at the outset of this project; available room figures from conversations with accommodations businesses in the Municipality of Kincardine, average daily rate and occupancy rate figures from Regional Tourism Organization 7 (RTO-7) historic data, and short-term rental figures from Hamari Avenu Insights & Analytics. These figures present a strong preliminary estimate of MAT revenue potential, though it is anticipated that through the course of this project the figures will be refined through continued discussion with local operators.

The report begins with defining the parameters of the projection model and identifying key variables in Section 1. It also explains the rationale and data sources used to establish a range of possible outcomes for each variable. Section 2 applies the model to the Municipality, providing estimated revenue ranges under current conditions. Each variable is also modeled with low, average, and high estimates, producing a projected annual revenue range between $328,000 and $580,000 should the Municipality implement a MAT.

This report focuses on the potential revenue, without diving into the specifics of how that money would be allocated. Future reports will discuss best practices for the industry/Ontario municipalities who currently have a MAT in place, with regard to how those funds are distributed. At a minimum, it should be noted that 50% of funds must be given to "a tourism entity," which "must be a not-for-profit organization, whose mandate includes tourism promotion in Ontario or in a municipality." There are also administrative costs to a MAT program which will lower the impact of the overall funds.

However, this report does not discuss these aspects, focusing instead on the overall potential pool of revenue.

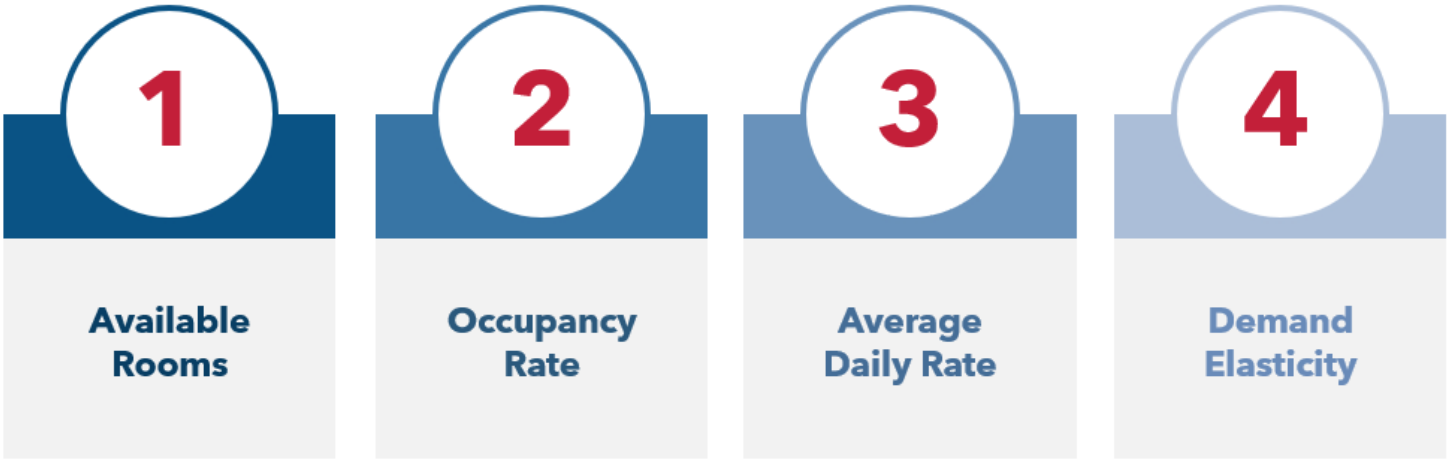
Finally, section 3 offers a macroeconomic overview of the tourism sector. This high-level analysis focuses on national trends and evaluates their potential implications for the Municipality of Kincardine. It provides context for assessing the health of the tourism industry and considers how a MAT might influence or be influenced by these broader dynamics. In addition, this section highlights possible "unexpected challenges" that could impact both MAT revenues and the Municipality's tourism strategy.

1. Municipal Accommodation Tax Model

In calculating the potential impact of a MAT, it is important to begin by first defining the variables within the model and outlining how the values were derived. This section addresses these technical aspects of the model so as to set the stage for the remainder of the report, which focuses on the direct reality of a tax in the Municipality. This is a model that has been refined through discussions with municipalities across Ontario and proven to be robust and flexible in suiting the needs of Ontario communities when calculating a potential MAT revenue. The figures presented within this report are estimates; as more reliable figures become available throughout (and in the months and years following completion) the project, updated figures can be inserted to gain more accurate estimates.

1.1. Model Definitions

The Municipal Accommodation Tax Model is designed to measure the potential revenue the Municipality of Kincardine may generate by instituting an accommodation tax. The Model relies on four variables:



Available Rooms:

This is simply defined as the inventory of rooms available nightly within the Municipality of Kincardine. The number of available rooms is multiplied by 365 in order to note the total number of available rooms over a full year in the Municipality of Kincardine, given the tax is applied annually.

Occupancy Rate:

The occupancy rate is defined as the percentage of occupied rooms across all properties, **annually**. Though demand fluctuates within any full year, this report reflects annual occupancy rates, as monthly fluctuations in demand will not impact the introduction of an annual tax. That is, whether the monthly rates are 10% and 70%, or 30% and 50%, either way the average rate, which is what the MAT revenue will reflect, would be the same (40%)

Average Daily Rate:

Average daily rate is the average cost per room, measured across all accommodation classes (hotels, motels, etc.) and all available rooms, averaged across the entire year.

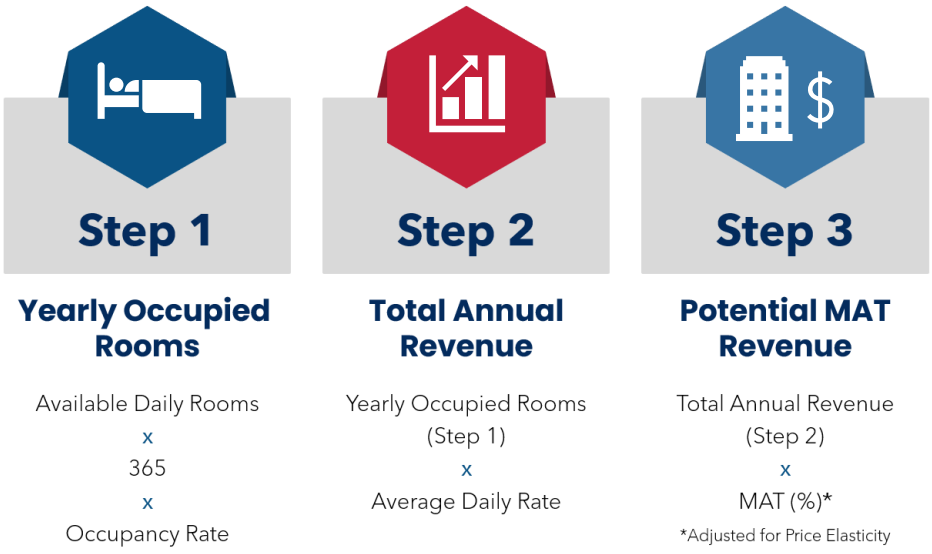
Demand Elasticity:

Elasticity of demand refers to the decrease in interest that occurs due to a change in cost. Specifically, within this model, the changing circumstance is the introduction of a municipal accommodation tax. That is, in the event the Municipal Accommodation Tax is introduced, the price of a stay in the Municipality of Kincardine will increase slightly and demand may subsequently decrease slightly.

Model Calculation:

The calculation used to measure this revenue is broken into three steps:

Figure 1: Municipal Accommodation Tax Model Steps



1.2. Model Breakdown and Parameters

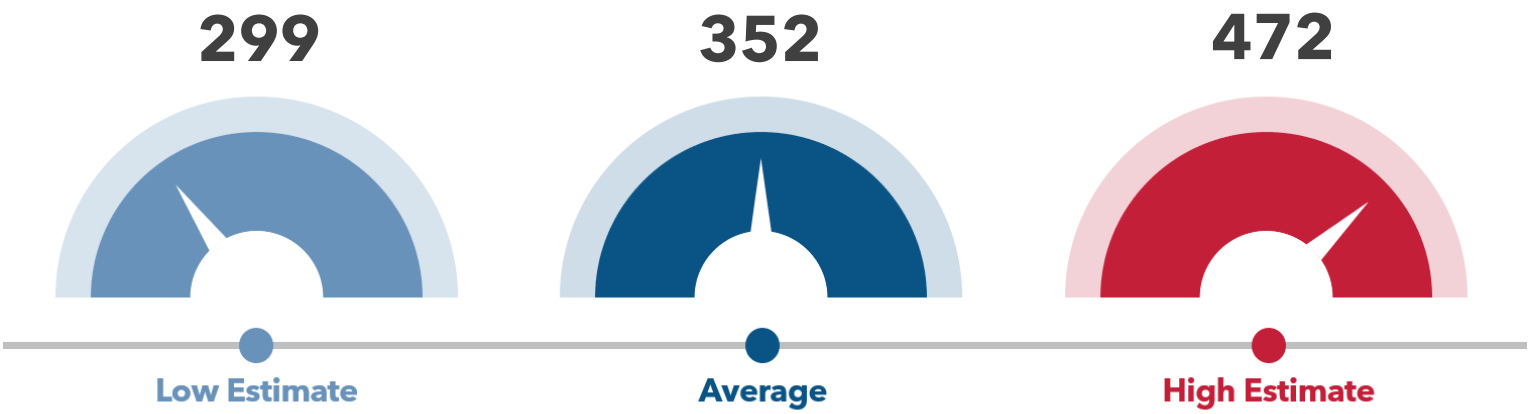
Available Rooms:

Research suggests that there are currently 352 potentially available rooms, on average, per night in the Municipality of Kincardine. A low estimate of 299 rooms is provided (subtracting 15% of available rooms) that accounts for potential decreases in rooms including:

1) A large number of rooms being used for longer-term (29-day+) stays - which are not considered eligible for a MAT surcharge as these are subject to Ontario's Residential Tenancies Act.
2) An hotel/motel closing permanently or temporarily for construction.
3) Additional unforeseen causes.

As new developments are currently underway, the number of expected units at these establishments will be added to the current total and that figure (472) will be considered as the higher end figure of available rooms.

Figure 2: Daily Available Rooms in the Municipality Estimates

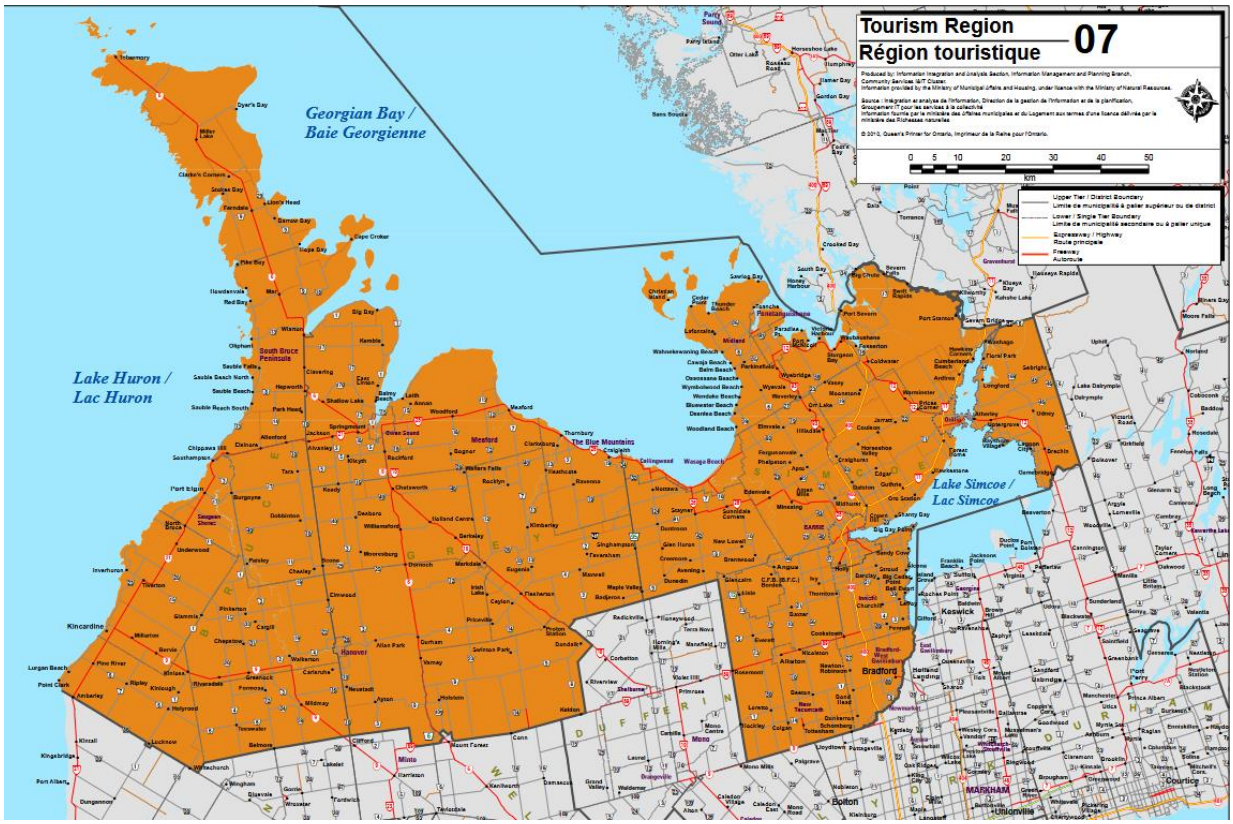


Source: McSweeney and Associates Research.

A Note on the Occupancy Rate and Average Daily Rate Geography:

Although the number of available rooms is available at a local level (within the Municipality of Kincardine) current data availability limited our ability to get granular occupancy and average daily rate figures. Historic data is relied on here from Regional Tourism Organization (RTO) 7, which covers the Bruce Peninsula, Southern Georgian Bay and Lake Simcoe, as this is the most local tourism data available. Unfortunately, that means the data naturally is influenced by a large number of communities that have little in common with the Municipality of Kincardine.

Figure 3: Regional Tourism Organization 7 Boundaries



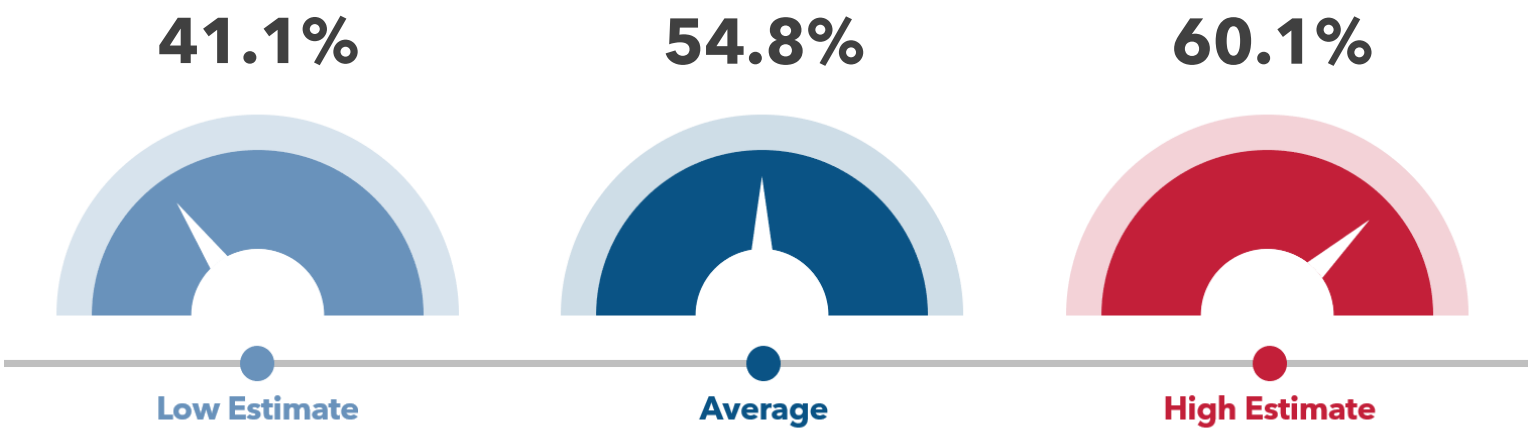
Source: Ontario Ministry of Tourism, Culture and Gaming.

It is anticipated that as the project continues, more complete local data will be gained that allows for a clearer picture of the Municipality of Kincardine occupancy rates and average daily rates. However, that is not available at this time. Therefore, the numbers presented within this report are preliminary estimates based on best available figures but should be considered an initial estimate rather than exact projections.

Occupancy Rate:

Low, expected, and high occupancy rates are based on ten-year averages throughout RTO-7, with 2020 removed from the data due to COVID-19 leading to significantly decreased data. Further discussion on the possibility of a similar event to COVID-19 reoccurring in the future is noted in Section 3.3. From 2012-2022, RTO-7 saw typical annual occupancy rates between 48.4% and 60.1%, with an average expectation of 54.8%. Discussions with staff and local accommodation businesses suggested that these occupancy rates may overrate the visitation figures in the tourism "off-season." The suggestion was that because RTO-7 includes a number of areas with sizable winter tourism, these numbers were inflated compared to figures within the Municipality of Kincardine. Therefore, after these discussions, the "low estimate" was manually adjusted to 85% of the RTO-7 figure. This dropped the "low estimate" from 48.4% to 41.1%. These benchmarks will be used as the range of outcomes projected within the model, with 41.1% as the "low estimate," 54.8% as the "average", and 60.1% as the "high estimate".

Figure 4: Occupancy Rate Model Range

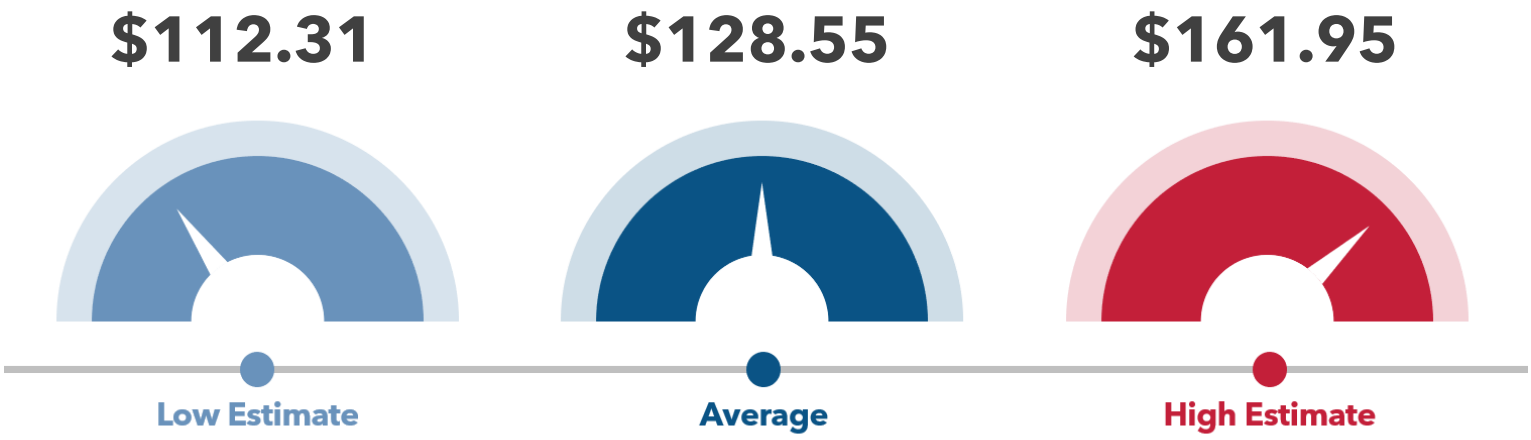


Source: McSweeney and Associates calculations from Ontario RTO-7.

Average Daily Rate:[1]

To determine the average daily rate, RTO-7 figures over the previous decade are again used, excepting the 2020 COVID-19 figures. Over the previous ten years, the largest average daily rate was $161.95 while the low annual rate was $112.31. There has been significant fluctuation in the data, with two years under $115 and only one year above $130. Usually, with one single year significantly higher than the rest this data point would be ignored as an extreme outlier. However, in this instance that data point is the most recent (2022), suggesting it is possible that post-COVID rates have risen considerably. This would follow a trend that has been seen in other jurisdictions, so it is included here with the expectation of refinement throughout this project. As such, $112.31 will be the low estimate for average daily rates, $161.95 the high estimate, and $128.55 the average expected daily rate.

Figure 5: Average Daily Rate Range



Source: McSweeney and Associates calculations from Ontario RTO-7.

[1] As a reminder, these figures are quite conservative, to attempt to avoid overestimating the potential MAT revenue the Municipality can expect to receive.

Demand Elasticity:

A 2016 report by KPMG for the City of Toronto noted that demand elasticity for tourism was dependent on the purpose of the trip. That is, business travel is much less elastic (i.e., a business trip is less likely to be determined by price) than a personal trip.[2] Specifically, average price elasticity was found to be -1.23 for personal trips, -0.93 for those visiting friends or relatives, and 0.18 for those travelling for business. This means that, for example, for every 1% increase in cost, there is expected to be a simultaneous 0.93% decrease in expenses by those travelling to visit friends or relatives.

Related to the purpose of an individual's trip, data is not available for the Municipality of Kincardine specifically. However, across domestic trips taken by Canadians in 2024, Statistics Canada reports that 8.7% of all travel was done for business-related reasons.[3] Moreover, visiting friends or relatives was the primary reason for travelling for 44.7% of individuals, and the remaining 46.7% of individuals suggested that their primary reason for travelling was for pleasure. It's possible that due to the presence of Bruce Power, these figures are skewed locally, however we do not have specific local data and will not attempt to "guess" at local figures.

To weigh the elasticity measures appropriately, each method of travel's elasticity is multiplied by the percentage of trips taken for that purpose (See Table 1 below). For example, personal trips were taken 46.7% of the time and had an elasticity of -1.23. The weighted elasticity across all trips taken is therefore -0.574.

Table 1: Elasticity by Method of Travel and as a Proportion of Total Travel

Type of Travel	Elasticity	Percentage of Trips	Weighted Elasticity
Business	0.18	8.7%	0.016
Visiting friends or family	-0.93	44.7%	-0.416
Personal	-1.23	46.7%	-0.574

Source: Konovalova et. Al., 2013; Calculations by McSweeney & Associates.

By adding the weighted elasticity figures together, the average elasticity measure across all trips to the Municipality would be approximately 0.974. That is, for every 1% increase brought on by the Municipal Accommodation Tax, it should be expected that 0.974% less is spent by tourists.

[2] *Konovalova et. Al. (2013). Elasticity of Demand in Tourism and Hospitality. European Journal of Economic Studies* in KPMG LLP, City of Toronto Revenue Options Study, 2016, Appendix C.

[3] Statistics Canada 2024 Quarterly National Travel Survey.

Table 2: Expected Elasticity for Travel to the Municipality of Kincardine

Type of Travel	Elasticity	Percentage of Trips	Weighted Elasticity
All	-0.974	100%	-0.974

Source: McSweeney & Associates custom calculation.

Municipal Accommodation Tax Percentage:

Mirroring many other smaller communities in Ontario with a MAT, this report will use a 4% tax to calculate potential revenue. While Toronto has recently seen a substantial increase in their tax percentage, smaller municipalities are more often remaining at 4%.

Short-Term Accommodation Estimates:

The short-term accommodation statistics used for this report are much more detailed and localized than the hotel/motel data, thanks to Hamari Avenu Insights & Analytics. To integrate the Hamari data with the hotel/motel data and modelling, two adaptations needed to be made.

First, due to the nature of short-term listings, Hamari's data relied on price per listing (so that a four-bedroom listing was not broken down by room rate), rather than price per room (as is done with hotels). Therefore, the "number of active listings" for short-term rentals is considered as the same (when being used in the model) as "total number of rooms" for hotels/motels.

Second, the short-term accommodation figures are static, not historic, therefore not allowing for high/low estimates. To overcome this limitation, the current figures from Hamari are used as "average" estimates for each variable and then applied the relative differences in hotel/motel data for each variable. For example, the low annual occupancy rate projection for hotel/motel data is 88.3% of the average estimate. For short-term accommodation estimates, the same relative amount (88.3%) was applied to the current annual occupancy rate (53%) to project a "low" estimate. Table 3 outlines the short-term accommodation low, current, and high estimates for each variable.

Please note that Short-Term Accommodation estimates are based on the assumption that a Short-Term Accommodation Licensing Program is enacted. Without a licensing program, MAT revenues are likely to be very minor to non-existent for these properties.

Table 3: Short-Term Accommodation Variable Estimates

Projection Estimate	Number of Active Listings	Annual Occupancy Rate	Average Daily Rate
Low	85	40%	$97.85
Current	100	53%	$112.00
High	127	58%	$141.10

Source: Hamari Avenu Insights & Analytics and calculations by McSweeney and Associates.

2. Applying the Model to the Municipality

Building off the definitions and figures outlined in Section 1, this section calculates potential MAT revenues for the Municipality of Kincardine, based on the high and low ranges for room availability, occupancy rate and average daily rate. This section outlines the estimated revenue the Municipality of Kincardine can project to receive through the implementation of a Municipal Accommodation Tax. Each of the variables is considered independently in order to explore which has the largest impact on potential revenue. For each model the weighted elasticity is 0.974, and the applied Municipal Accommodation Tax is 4% - these variables remain unchanged.

2.1. Room Availability Variables Model

For this model, the average daily rate and annual hotel/motel occupancy rate will remain at their "average" figures ($128.55/54.8%) but the daily total number of rooms in the Municipality of Kincardine will fluctuate between low (299), current (352) and high (562) estimates. Similarly, short-term rental room figures will fluctuate but the average daily rate ($112) and occupancy rate (53.0%) will remain the same.

Applying these figures to the formula, the Municipality of Kincardine would draw revenues between $371,478 and $580,035, depending on the number of available rooms. That is, during a year where:

- There were 299 hotel/motel rooms and 85 short-term accommodations available nightly, on average, the Municipality of Kincardine would expect to receive MAT revenues of $299,727 from hotel/motels and $71,750 from short-term accommodations ($371,478 total).

- There were 352 hotel/motel rooms and 100 short-term accommodations available nightly, on average, the Municipality of Kincardine would expect to receive MAT revenues of $352,620 from hotel/motels and $84,412 from short-term accommodations ($437,032 total).

- There were 472 hotel/motel rooms and 127 short-term accommodations available nightly, on average, the Municipality of Kincardine would expect to receive MAT revenues of $472,832 from hotel/motels and $107,204 from short-term accommodations ($580,035 total).

2.2. Occupancy Rate Variables Model

For this model, the nightly available hotel/motel rooms estimate will be 352, while the average daily rate will again remain the same ($128.55). For this model, the annual occupancy rate will fluctuate between low (41.1%), medium (54.8%) and high (60.1%). Short-term accommodation rooms (100) will remain the same, as will the average daily rate ($112 but the annual occupancy rate will fluctuate between low (39.8%), current (53.0%) and high (58.1%).

Applying these figures to the original formula, the Municipality of Kincardine would draw revenues between $328,093 and $479,300, depending on the annual occupancy rate. That is, during a year where:

- The occupancy rate averaged to 41.1% for hotel/motel accommodations and 39.8% for short-term accommodations the Municipality of Kincardine would expect to receive MAT revenues of $264,722 from hotel/motels and $63,371 from short-term accommodations **($328,093 total).**

- The occupancy rate averaged to 54.8% for hotel/motel accommodations and 53.0% for short-term accommodations, the Municipality of Kincardine would expect to receive MAT revenues of $352,620 from hotel/motels and $84,412 from short-term accommodations **($437,032 total).**

- The occupancy rate averaged to 60.1% for hotel/motel accommodations and 58.1% for short-term accommodations, the Municipality of Kincardine would expect to receive MAT revenues of $386,724 from hotel/motels and $92,576 from short-term accommodations **($479,300 total).**

2.3. Average Daily Rate Variables Model

For the final variable, available rooms will again remain the same (352) along with maintaining the "average" occupancy rate (54.8%). For this model, the average daily rate will range from $112.31 at the low end, to $161.95 on the high end, with $128.55 the average. Short-term accommodation rooms (100) will remain the same, as will the annual occupancy rate, while the average daily rate will fluctuate between low ($97.85), current ($112) and high ($141.10).

Once more applying these figures to the original formula, the Municipality of Kincardine would draw revenues between $381,821 and $550,583, depending on the average daily rate. That is during a year where:

- The average daily rate was $112.31 for hotels/motels and $97.85 for short-term accommodations, the Municipality of Kincardine would expect to receive MAT revenues of $308,073 from hotel/motels and $73,748 from short-term accommodations ($381,821 total).

- The average daily rate was $128.55 for hotels/motels and $112 for short-term accommodations, the Municipality of Kincardine would expect to receive MAT revenues of $352,620 from hotel/motels and $84,412 from short-term accommodations ($437,032 total).

- The average daily rate was $161.95 for hotels/motels and $141.10 for short-term accommodations, the Municipality of Kincardine would expect to receive MAT revenues of $444,238 from hotel/motels and $106,344 from short-term accommodations ($550,583 total).

2.4. Model Variables Summary

While a significant number of models and outputs are presented, each variable fluctuation resulted in fairly similar outputs. That is:

4) For hotels/motels, projected MAT revenues range between $299,727 and $472,832 depending on fluctuating variables.

5) For short-term accommodations, projected MAT revenues range between $71,750 and $107,204 depending on fluctuating variables.

6) In total, therefore, the Municipality of Kincardine, based on current estimates, would be projected to earn between $328,093 and $580,035 in Municipal Accommodation Tax revenues.

Though these projections suggest there will be a significant impact on the Municipality of Kincardine's revenue stream, there are further considerations to take into account. The following section profiles the tourism sector broadly, before discussing some considerations as to how the MAT may have an impact on the municipality's tourism sector.

3. Macro-Economic Tourism Analysis

While Section 2 outlined estimated revenue from a MAT for the Municipality of Kincardine based on individual variable changes, this section focuses more on a broad understanding of the sector as a whole, and how the current and potential outlook may impact MAT revenue and implementation. This section also looks at four potential (but unlikely) economic shocks that would have an outsized impact on the Municipality's implementation of a MAT. While unlikely, they are flagged here as examples of potential challenges that may arise in the future.

3.1. Tourism Sector Outlook

Generally, the tourism sector in southern Ontario, and specifically the Municipality of Kincardine, has a positive outlook. Provincially, in 2024 the tourism sector saw a significant increase over 2023 (4.8%)[4] with domestic tourism increasing by 9%. As costs for travel have risen, domestic travel has increased around the world. For larger tourism destinations this poses difficulties, but for destinations more focused on attracting domestic visitors, this is a strong opportunity.[5] Similarly, across a host of tourism audiences (RV and campgrounds, hotels, day-trippers), there is a strong push within the industry to focus on affordability.[6]

Given these sector realities, the Municipality is well set up to take advantage of its affordable options near to the Greater Toronto Area and beautiful natural setting. At the same time, this demographic of southern Ontario tourism is fairly saturated, with municipalities all around the GTA promoting their "back to nature" benefits to urban dwellers. Having a Municipal Accommodation Tax available to support the funding of marketing may help to level the playing field and attract additional visitors to the area.

The remainder of this section speaks to the volatility of the sector and external demand factors that will impact tourism revenues. As will be seen, the sector is volatile due to its reliance on relatively fickle consumer demand. Fortunately, current trends are positive with opportunity for revenue growth in the short-term, though current international realities do present potential long-term threats.

[4] Skift Advisory, RTO9 Quarterly Report.

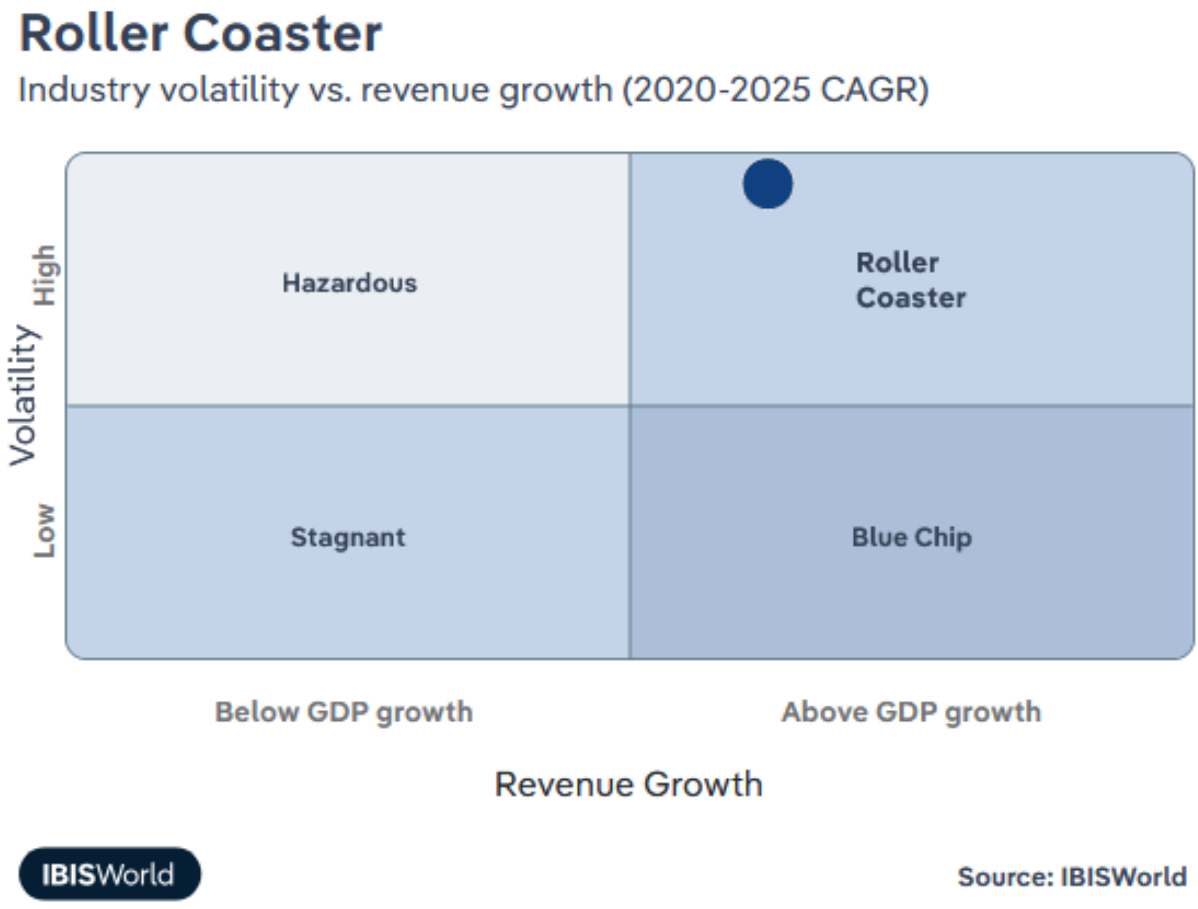
[5] Euromonitor International. Travel Industry 2024.

[6] IBISWorld.

Volatility

The tourism sector broadly is quite volatile. Figure 6 shows that the sectors high revenue growth and high volatility between 2020 and 2025 has led IBISWorld to classify the sector as a "roller coaster." Though this classification brings risk with it, there is also substantial opportunity due to revenue growth. That is, when unemployment is low and individuals generally have greater disposable income, the sector sees increased travel activity. During such periods, consumers are more inclined to spend on leisure and experiences, leading to a surge in demand for tour operators. Conversely, as travel is often a "luxury," during economic downturns, there is typically a significant decline in travel-related spending. As such, difficult-to-plan-for macroeconomic fluctuations, noted in the external demand factors subsection below, are serious drivers of revenue volatility.

Figure 6: Industry Classification (Volatility vs Revenue Growth), 2020-2025



Source: IBISWorld

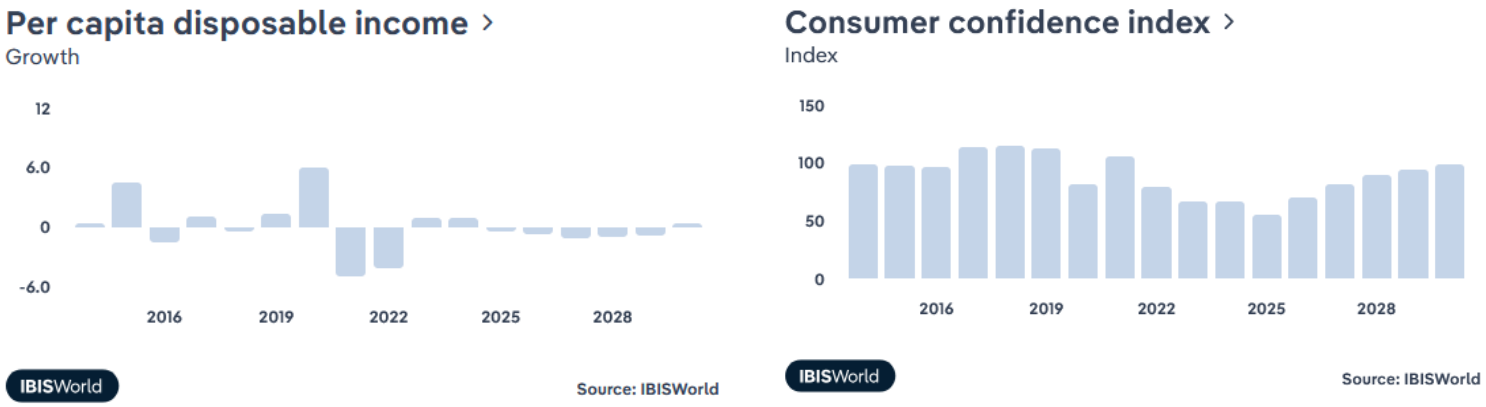
External Demand Factors

Two main consumer factors are set to impact tourism demand over the short and long term:

1. Canadian Per Capita Disposable Income
2. Canadian Consumer Confidence Index

While per capita disposable income is projected to remain fairly steady through the end of the decade, consumer confidence is expected to grow (see Figure 7). The potential for an unexpected shock to either of these factors is noted at the end of this section, but barring a substantial external shock, the trends are generally positive. Explanations as to why these factors are important are presented below the figure.[7]

Figure 7: Historic and Projected Trends for Tourism Sector External Drivers, 2013-2030



Source: IBISWorld

Tourism spending is largely discretionary, meaning it's influenced by consumers' available income. Changes in per capita disposable income directly impact travel habits–when people have more to spend, they're more likely to take trips both internationally and locally. Given this, an increase in disposable income presents a growth opportunity for the industry. At the same time, any potential future decrease in disposable income would lead to a likely decline in travel, impacting the Municipality of Kincardine's tourism sector and MAT revenue.

[7] Other consistent external drivers include "inbound international travel," "international trips by Canadian residents," and "Corporate Profit." However, these impact larger tourism centres (i.e., Toronto) and tourism destinations geared towards international travelers (i.e., Vancouver). They are less impactful for more local destinations such as the Municipality of Kincardine.

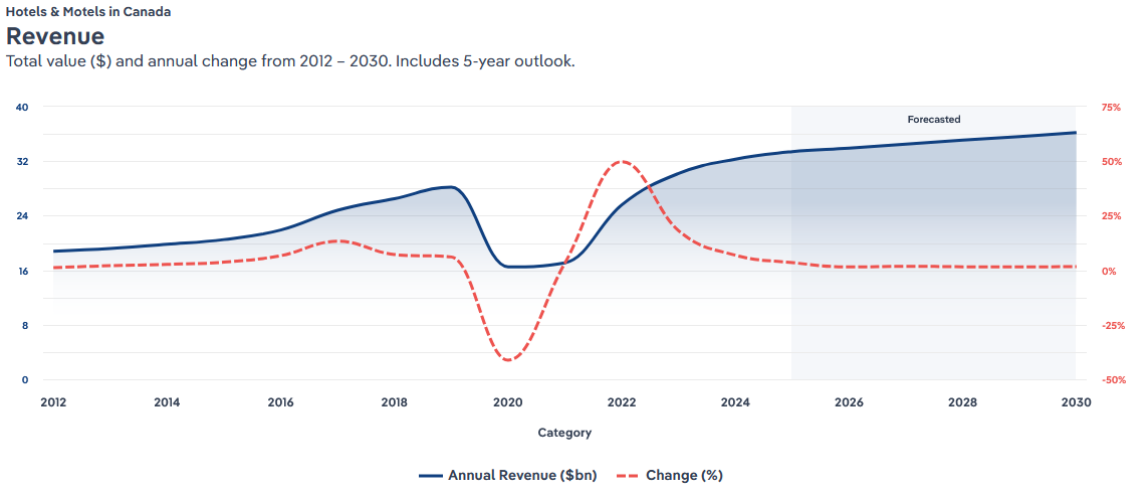
Regarding consumer confidence, as with total incomes, when consumer confidence is high, Canadians are more inclined to spend on travel, which increases travel and raises accommodation occupancy rates. On the other hand, when confidence falls, people become more cautious with their spending, often cutting back on travel plans– ultimately impacting the industry's revenue.

Overall Outlook of the Sector

Although the sector is volatile and subject to the whims of consumers, revenue growth is expected to be fairly steady and positive through 2030. While considerable threats exist long-term (international political challenges, extreme weather), opportunities also exist as more Canadian travellers consider domestic vacations. Historic data also suggests that in the event the Canadian dollar stays weak against the American currency, more American travellers will consider trips to Canada, though this needs to be balanced with an understanding of the current political climate. While many of these tourists would congregate in larger cities, there is certainly an opportunity to capitalize on travellers from northern U.S. states (Michigan, Pennsylvania, etc.) who may be travelling via car and more interested in smaller destinations than the larger Canadian cities.

Figure 8 shows that while the COVID-19 pandemic led to a considerable short-term decrease in revenue for hotels and motels (presented here as a proxy for tourism more generally), that revenue loss has been recovered since. Moreover, the expectation is for future revenue growth to return to pre-2015 levels of consistency. Overall, therefore, while uncertainty exists and challenges remain, the sector should be seen as healthy and having a positive outlook.

Figure 8: Historic and Project Revenue Outlook, Hotels and Motels, 2012-2030, Canada.



Source: IBISWorld

SWOT ANALYSIS

- Thriving tourism spending post-COVID, with national nightly average rates, revenues, and occupancy rates all reaching their highest rates in 2024 since pre-COVID (2018).
- High revenues per employee for the tourism industry.
- Nationally, strengths include a strong brand, well-developed infrastructure, Government support through funding and marketing campaigns, and our world-renowned national beauty.
- Existing tourist population.

- Persistent labour shortages, as low wages within sector can make labour attraction difficult.
- The industry is subject to significant volatility due to being heavily reliant on consumer sentiments and demand.
- Seasonality of the sector.
- Limited public transportation (and almost no ride-hailing services) in Kincardine, makes tourism dependent on private vehicle transportation.
- Lack of amenities for tourists in the Municipality.

- Encouraging and tapping into the uptick in local/domestic travel.
- Push for "eco-friendly" vacations are leading to more local travel
- Younger Canadians (whose purchasing power is increasing as they age) are expected to be a prime demographic for local, "back to nature" style travel. The Municipality is well suited to tap into this market.
- Weakened exchange rate may lead to more travellers from northern states coming to Ontario.

- As the potential for extreme or uncertain weather conditions increase, travel becomes less typical.
- Saturated market within southern Ontario, as municipalities have sought to capitalize on travellers leaving the GTA for more nature-based settings.
- Global uncertainty impacting Canadian incomes and discretionary spending of the Municipality's target market.
- Neighbouring communities along the shoreline do not currently have a MAT in place.

Source: IBISWorld and research by McSweeney & Associates.

3.3. Potential Unexpected Shock Impacts

The previous analysis lays out expectations regarding tourism's national and international outlook. While signs are positive for tourism nationally and within the Municipality of Kincardine, the reality of the sector means exogenous shocks cannot be ignored. Tariffs are new potential challenges with uncertainty regarding their real impact and length of time regarding their relevance. Other challenges have been flagged as potential challenges since initial discussions surrounding a MAT across Ontario (unexpected elasticity and consumer/business pushback), however given the success and spread of MAT programs around the province, these fears are less prevalent today than they have been in the past (but are still worth mentioning).

Finally, while the COVID-19 pandemic is less "front-of-mind" for many at the time of writing (spring 2025) the reality of its impact on tourism is not forgotten and a comparable outbreak in the future would still have a significant impact. This is not meant as an exhaustive list, considering "unexpected shocks" are by definition hard to expect, but rather a reflection of certain potential types of challenges and how they will impact tourism/MAT revenues.

Extended Trade War Significantly Impacts Discretionary Income

As noted in the future outlook section above, one of the most relevant consumer indicators of expected demand is discretionary income. While current figures suggest the outlook for this impact factor are positive, it's possible that the current political climate leads to a protracted trade war, impacted discretionary income. One of the challenges of producing a static report is that it presents a snapshot in time; the length and impact of the current climate on tariffs is unknown.

As of writing, tariffs are a legitimate threat and as currently structured would have a significant impact on many Canadian's incomes. If tariffs are sustained, it's possible that the ability to travel for Ontarians is hampered by a lack of discretionary income. Of course, as noted within the SWOT analysis above, there are other potential opportunities that arise from the current political dynamics, including a desire to travel and support local, but if incomes are impacted than these opportunities will be dulled by financial realities.

In the event international difficulties impact discretionary income and tourism slows, having a MAT will help maintain the local industry's competitive balance with other Ontario municipalities and continue to fund marketing efforts. As demand decreases, having a "ready-made" pool of funds for marketing the Municipality as a destination will be beneficial.

A Global Catastrophe Similar to COVID-19

The COVID-19 pandemic led to extreme restrictions on travel, with tourism spending decreasing by as much as half (48.1%) in 2020 and tourism-related employment losses of nearly 75% in certain Ontario municipalities. Fortunately, these shocks were fairly short-lived, with a rebound for the sector (as a whole, with specific businesses and areas recovering faster/slower) to pre-pandemic levels by 2023. Nevertheless, the short-term impact was profound.

The "worst-case" scenarios outlined in Section 2 do not reflect the expected declines in demand that would come from this and similar outlier events. These drastic declines have been intentionally left (as with other analyses in similar municipalities), the expectation is that in the event a similar catastrophe occurs in the future, the Municipality would have to consider mitigation methods for the sector. These mitigation strategies might include a temporary pause on MAT funding, or funding supports for tourism businesses, which would change the outlook of this program entirely. Given this, specific modelling based on global catastrophes was not included but should note here that in the event a similar international event occurred, business (and subsequent MAT) revenues would drop drastically.

Unexpected Elasticity

The final two potential pitfalls worth noting have been on community's radar with regard to "unexpected outcomes" for a number of years as the potential impact of a MAT across Ontario has been analyzed in many municipalities. As there have been many (nearly 75) municipalities successfully rolling-out a MAT without seeing drastic demand decreases or facing unassailable resistance, the fears of these unexpected outcomes is lessened. Nevertheless, they are noted here with the understanding that each municipality is different, and Municipality staff should still be aware of their potential implications.

The first potential shock is if trips and spending in the Municipality are more "elastic" than expected. That is, if the implementation of the tax results in a more substantial reduction in either spending or planned trips to the Municipality of Kincardine than expected. There are two potential reasons that the expected elasticity proves incorrect.

1. If there are more "personal" trips to the Municipality of Kincardine than suggested by the Statistics Canada data. As personal trips are the most sensitive to a change in price, a greater proportion of personal trips would lead to a higher rate of elasticity. However, even if all trips were "personal", the

change in expected MAT revenue would only be approximately $5,000 (approximately 1% of revenue), so the impact is relatively minimal.

2. If the elasticity weights in the research paper cited above are too conservative, regardless of method of travel. This is a more open-ended challenge in that there is technically no upper limit to the elasticity of demand in this instance. However, any absurdly high amount of elasticity would suggest that lowering prices would drive increases in demand so drastically that those changes would already have occurred. That is, if elasticity was so great that lowering prices by $1 meant that revenue would increase by more than $2, it is hard to believe that prices would not adjust enough to reflect this reality. Therefore, to highlight the largest potential pitfall related to unexpected reductions in travel due to the MAT, the impact of an elasticity figure of 1.9 was measured. In this instance (which is exceptionally unlikely), the reduction in MAT revenue across all scenarios was no more than $10,000. While this is a large figure, it's still only a 5% reduction in the lowest expected MAT revenue. Given this, and given the strong unlikelihood that this occurs, it is a pitfall worth noting but not modelling.

Consumer/Business Pushback

Any new fees are naturally going to incur some pushback from the local business community as well as consumers. However, by being proactive regarding messaging and communications, these issues can be mitigated to a certain extent. It is suggested that communications focus on two key aspects of the tax to help individuals understand the reasoning behind the new costs: a clear strategy to outline the allotment of municipal funds, and an easily accessible "FAQ-style" webpage. This will ensure transparency and help ease the concerns of community stakeholders.

As the Municipality works through the planned MAT work through 2025 and 2026, there will need to be a clear communication plan identifying how to best promote and support enacting the tax. That is, tasks will include needing to:

- Identify best practices regarding enaction and administration
- Have a clear strategy to outline where the increase in municipal funds will be allocated (or direction as to how decisions will be made).
- Provide clear direction as to where the tax revenue will be allocated to in a manner that is easily accessible (Municipality website, etc.).
- Build an easily accessible FAQ-style page.
- Provide as much transparency as possible to Council, residents, businesses, and all community stakeholders.

Conclusion

This report has sought to provide a mathematical assessment of the impact a Municipal Accommodation Tax would have for the Municipality of Kincardine. It began by defining the variables that were taken into account (annual occupancy rates, average daily rates) and explored the values that those variables presented.

It then modelled the variables to the Municipality of Kincardine, presenting expected revenue ranges in the event the status quo holds, or the variables see either positive or negative changes. Each variable's low, average, and high ranges were modelled to outline potential revenue expectations. Section 2 noted that the Municipality's revenue range from hotels/motels would likely be between $260,000 and $473,000, depending on which variable rose or fell. MAT revenue ranges for short-term accommodation units are projected to be between $60,000 and $110,000.

Finally, Section 3 presented an overarching view of the tourism sector, with highlights regarding volatility, outlook, demand factors, and SWOT noted. While touched upon briefly, in-depth political considerations were not discussed, as this is a static document and realities shift quickly. Though current factors present challenges, opportunities also exist, and it is unclear how long or how much these factors will impact the tourism sector.

Altogether, in the event a Municipal Accommodation Tax is enacted in the Municipality of Kincardine, given the data presented here and based on data from the previous decade alongside additional research, it can be surmised that, under typical and expected circumstances, revenue generated from hotel, motel, and short-term accommodation stays would be between approximately **$328,000 and $580,000 annually**. As a reminder, this revenue will be split between an eligible tourism entity (at least 50% of funds must be allocated to this entity) and administrative costs of the program, with the remaining funds being eligible for use at the municipality's discretion.