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Alternative Revenue Generation in Ontario Municipalities: The Utilization of Municipal Accommodation Tax (MAT)

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Abstract

In recent years the Province of Ontario has enabled municipalities to adopt accommodation taxes as a revenue generating tool. There is an absence of data in Canada as to what this revenue is being utilized for. Most of the literature on the topic comes out of the United States and Europe, where hotel and accommodation taxes have been commonplace for many years, although a lot of the research focuses on the impacts of accommodation taxes on tourism. Hypothesising that the accommodation tax in Ontario is being utilized as a revenue-generating tool to offset other line items in municipal budgets, this paper examines municipalities in Ontario that have imposed an accommodation tax and the utilization of the funds generated. The research question being examined is what Ontario municipalities are doing with the Municipal Accommodation Tax (MAT) revenue that they have discretion over. This paper uses an inductive research strategy involving observation through various publicly available content, such as by-laws, staff reports, budget documents and meeting minutes to determine what municipalities are doing with the revenue from the MAT. The analysis reveals most municipalities in Ontario are allocating all, or at least part, of the revenue that they have discretion over to tourism initiatives.

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Introduction

Prior to the 1960s, tourism-specific taxes did not exist. However, worldwide there are now over forty different types of taxes levied on tourism (Heffer-Flaata et al., 2021: 749). Accommodation taxes, also commonly known in other jurisdiction as "hotel taxes", "lodging tax" and/or "tourist tax", have grown in popularity stemming "from the widely held perception that its burden is largely borne by tourists rather than residents, with little negative impact on industry sales" (Bonham et al., 1992: 433). Canada has been slower to adopt accommodation taxes than other jurisdictions like the United States and Europe, which have imposed these types of taxes for a longer period of time. In 2017 via legislative changes, the Province of Ontario provided municipalities with the ability to levy a Municipal Accommodations Tax (MAT), which is a tax that is added to short-term accommodations of all kinds, including hotel stays, bed and breakfasts and short-term rentals such as AirBnB (O. Reg. 435/17).

Accommodation taxes are "generally regarded as easier means to generate revenue for regional administrative bodies, as they are primarily 'exported' to visitors" (Lee, 2014: 49). In their 2021 article, Plzakova and Studnicka note that "the local taxation of tourism services is one of the very significant tools of local self-government and can be used for saturating the increased burden on public spaces and the use of public property and services in the territory of the municipality not only by residents but also by non-residents" (66). The ability to levy such a tax, that primarily impacts tourists, is relatively new in Ontario.

The amount generated from tourism taxes can be substantial. Hudson et al. note in their 2021 article that in 2017 “New York City took in US$582.5 million in lodging tax revenue, up over US$200 million since 2010” (206). Given the potential for large amounts of revenue, it is a worthwhile area of study to investigate how these funds are being spent. Another reason that this research is relevant is that many municipalities are facing revenue challenges as the main source of revenue for municipalities is the property tax. As will be outlined below in the literature review, there are academics who believe the property tax is an underutilized tool for generating revenue for municipalities and that the property tax itself should be enough to meet municipal revenue needs. However, due to several factors, sometimes increases in property taxes are not sufficient to keep up with municipal needs, particularly for infrastructure. Raising property taxes is seen as politically unpopular, so many municipalities are requesting further taxation powers from the Province to raise revenues through alternate means. An example of this is the accommodation tax.

The Ontario regulation, O. Reg. 435/17, that provides the ability to levy the tax via by-law, also prescribes what a portion of the revenue must be used for (O. Reg. 435/17, s. 4 – 5). For most municipalities in Ontario, the formula used in the regulation stipulates that 50% of the revenue must be provided to an eligible tourism entity as defined by the legislation and the municipality has discretion over the remaining 50% of the revenue (O. Reg. 435/17, s. 5). However, in the case of municipalities that had a destination marketing program in existence when the MAT was imposed, the formula for calculating how the funds are to be used is slightly different. The formula stipulates that the eligible tourism entity must receive at least as much funding as was provided via the destination marketing program in the fiscal year prior to the MAT being imposed (O. Reg. 435/17, s. 4). This paper focuses on the portion of the funding that municipalities have discretion over. The research question that this paper will explore is: How are municipalities in Ontario utilizing the Municipal Accommodation Tax (MAT) revenue that they have discretion over?

The Province of Ontario will likely continue to receive pressure from municipalities to permit additional revenue generating tools other than the property tax in the years to come. For this reason, looking at how municipalities use the accommodation tax dollars will be an important indicator of how municipalities may use revenue from future taxation tools. The MAT is a low hanging fruit in terms of looking at additional revenue generating tools. The tax is unlikely to impact residents of a municipality directly due to the tax being imposed on visitors staying in hotels, motels, short-term rentals and other types of transient accommodations, so it is a more politically appealing tax to implement that will also help to raise revenues.

Gago et al. outlined four main rationales for taxing tourism: the opportunity for significant revenue, lowering the fiscal burden on local residents, the tax acting as a price substitute for the goods and services that tourists consume, and to correct negative externalities, such as the strain on the destination's natural resources, public transport and general infrastructure (2009). The implementation of the municipal accommodation tax may just be the first of many taxation options made available to municipalities in order to raise revenue instead of relying largely on the property tax to do so. As such, it is an important area of study to see how municipalities utilize alternative taxation to generate revenue.

This paper will begin with an overview of the literature regarding revenue generation in Canada and the literature on accommodation taxes in the United States and Europe. Then a detailed overview of the methodology and research design will be set out, along with its limitations, utilizing case studies as practical examples. Lastly, the findings of this research will be analyzed, and areas of possible future research will be proposed.

Literature Review

Introduction

There is a lot of literature available on municipal revenue in Canada, but none seems to focus on the use of a municipal accommodation tax specifically. If the use of an accommodation tax is explored, it is typically briefly mentioned and there does not appear to be a lot of standalone research on the issue. However, there is research on accommodation taxes (also called hotel taxes, resort fees, occupancy taxes, etc. in the literature) in the United States and Europe, where these types of taxes are more common and have been used for a longer duration. There is also research on local option sales taxes from the United States. The literature review will first focus on the Canadian landscape of municipal revenue generation and then shift focus to specifically detail available research on accommodation taxes from the United States and Europe.

Taxation and Revenue Generation in Canada

A lot of the existing literature in Canada looks at the use of property taxation and explores the use of a municipal personal income tax and/or a municipal sales tax as means of increasing municipal revenues. The use of a municipal sales tax in the existing literature is broader than an accommodation tax as it applies to all sales within a municipality, not sales focused solely on accommodation, which tends to impact visitors/tourists the most. There is also literature on local option sales taxes from the United States, but again, this is a broader tax, as it is a taxation on everything within a local area, not just tax on accommodations.

In their 2016 article, Kitchen and Slack explore the use of various revenue raising tools based on observed examples used in other jurisdictions. They explore things like user fees, road pricing/taxation, parking charges, taxes on personal income, taxes on municipal sales, vehicle registration, fuel and hotel stays. Kitchen and Slack ultimately determine that a mix of taxes would be the best way to increase municipal revenues, specifically a personal income tax and a municipal sales tax (2016: 2). For personal income, the authors estimate revenues that would be generated as a result of implementing a 1% municipal tax on this income. With respect to a municipal sales tax, they again use a 1% mark to estimate revenues that would be generated from this (Kitchen and Slack, 2016: 21 - 22).

The authors do not speak to the political feasibility of implementing these types of taxes. In addition, they suggest that it would be more expensive to administer an increase in property taxes, which does not make a lot of sense since municipalities already have well established property taxation systems. If new revenue sources are to be used, an entirely new system/process for collecting these would need to be created rather than leveraging a system that is already in place. In addition, a weakness of this study is that the analysis is limited to eight large Canadian cities that are used as case studies in the paper. The study would not likely be applicable to small or medium sized municipalities in Canada, which limits the scope of the findings. This study is focused on the use of a personal income tax and a general municipal sales tax, not a tax specifically targeted at accommodations, which further limits its applicability to the research contained in this paper.

Other academics, such as McMillan and Dahlby suggest that the property tax alone is a sufficient source of revenue for municipalities. In their 2014 paper, McMillan and Dahlby look at whether other revenue generating tools such as a personal income tax or a municipal sales tax are necessary for municipalities to raise revenues. In their examination, they conclude that the property tax should continue to be used as the main revenue generating tool for municipalities (McMillan and Dahlby, 2014: 24). In their article, they note that as a percentage of income, the municipal property tax burden has not been increasing, so there is adequate room to grow this tax without needing to look to other types of taxes to increase revenues (McMillan and Dahlby, 2014: 6).

The authors also point out that the property tax is a relatively stable type of tax versus personal or municipal sales taxes where the revenue generated could be subject to a high degree of volatility. In addition, the authors note the high degree of administration that would be required to implement something like a municipal sales tax that does not currently exist (McMillan and Dahlby, 2014: 23). The study is limited as the sample is only made up of some municipalities in Alberta, so it is not clear if their assessment would stand if it was applied to all municipalities in Alberta. In addition, it may be difficult to generalize these findings to other provinces in Canada, where incomes may have not kept pace in the same way as Alberta, which is the rationale used that makes an increase in property tax the most feasible solution according to the authors. Again, this study is not focused on an accommodation tax, but discusses the property tax and the idea of a general municipal sales tax. A general municipal sales tax is not targeted at accommodations only and is generally estimated at a lower rate in the literature (i.e. 1%) versus the 4% municipal accommodation tax rate that many municipalities in Ontario have chosen.

A 2015 paper by Tassonyi, Bird and Slack also examined the question of whether municipalities in the Greater Toronto Area (GTA) could raise property taxes. The authors concluded that the property tax has the capacity to meet the financial needs of GTA municipalities to a larger extent than it currently does (Tassonyi, Bird and Slack, 2015: 1). Like McMillan and Dahlby, these authors suggest there is capacity within the property tax system which can be utilized to fund needed municipal expenditures. Tassonyi, Bird and Slack speak to "revenue hills", where a region can increase taxation to a certain point (the "revenue maximizing point" or peak of the revenue hill), after which if the tax rate continues to increase, the region will actually see declining tax revenue (i.e. from individuals leaving the high tax rate area or finding ways to avoid the higher taxes, etc.) (2015: 3).

The authors conclude that no region in the GTA is at the peak of the revenue hill for residential property taxes: that each municipality studied could increase revenue by raising the tax rate, with one exception (Tassonyi, Bird and Slack, 2015: 5). However, the authors note there are considerable variations in the amount of space left to do so until a municipality reaches the peak of the revenue hill. The notable outlier here is Durham Region, which the authors note is at its peak or "revenue maximizing point" and if the tax rate is increased further, this is expected to result in a loss of revenue (Tassonyi, Bird and

Slack, 2015: 17). Again, this is another study that focuses on increasing revenue via increases to the property tax rather than looking at alternative tools to generate revenue.

Similarly, a report authored in 2017 by Frank Clayton for Ryerson's University Centre for Urban Research & Land Development states that in comparison to other GTA municipalities, the City of Toronto has plenty of room for increasing residential property taxes (2017: 1). Clayton looks at average property taxes paid among GTA municipalities, the effective property tax rate (defined as property tax as a percentage of market value of the property) and the property tax burden (property tax as a percentage of household income) (2017: 2). Clayton concludes that Toronto's effective property tax rate is the lowest of any GTA municipality, and 23% below the median effective tax rate for the 25 GTA municipalities studied (excluding the City of Toronto). In addition, Clayton notes that Toronto's property tax burden was 17% below the median percentage for the 25 municipalities examined (excluding Toronto) (2017: 6). Clayton concludes that due to this comparison, the City of Toronto has a lot of room to increase taxes. As noted above, a lot of the existing literature is focused on the property tax as a means to increase municipal revenues. This could be because it is already an existing power that municipalities have. For a lot of other revenue generating tools considered by the literature, Provincial permission would be required. Perhaps this is why there is an absence of research in this area in Canada – any research would be mostly speculative and involve estimating revenues versus being able to provide concrete examples.

In their 2015 article, Block and Weiss suggest that Toronto has a revenue problem due to the fact that property tax increases were lower than inflation and did not increase with population growth (2015: 7). They state that this has led to a diminishing capacity for Toronto to maintain its vital services. Block and Weiss advocate for utilizing powers Toronto was granted in the *City of Toronto Act, 2006* (COTA) (2017: 8 – 10) as additional revenue generating tools. While Block and Weiss note that the COTA prohibits a blanket municipal sales tax, the COTA does provide an exemption for certain items to be taxed. Block and Weiss estimated revenues that would be generated from taxes on items such as sales of cigarettes, alcohol and entertainment (movie admissions, live sports and other performances, etc.). In addition, they estimated revenues that could be generated from things like road tolls, taxing non-residential parking spaces and the vehicle registration tax.

They highlight that increasing property taxes by less than the rate of inflation is unsustainable because it is the city's most reliable source of revenue and this will cause it to continually lag behind the city's actual fiscal needs. Block and Weiss conclude that the city must catch up on forgone property tax revenues as well as utilize existing revenue generating tools permitted under COTA (2017: 11). While this paper speaks to the revenue issue, it does not involve data on a full municipal sales tax as is the case in the United States. In addition, it speaks to revenue estimates from other revenue generating tools, but not a municipal accommodation tax specifically.

Local Option Sales Taxes

There is not a lot of Canadian data on municipal sales taxes, but research has been conducted on a similar concept in the United States, except it is generally called a local option sales tax rather than a municipal sales tax. Both have the same premise – there would be a special tax added to all sales within a specific geographical area – but they go by different names. McMillan and Dahlby briefly touch on local option sales taxes in their 2014 paper mentioned above, however their assessment is completed using examples from the United States, which may not be easily applicable to the Canadian experience.

In her 2014 paper, Afonso examines the use of local options sales taxes in the United States. She uses statistical analysis to determine whether local option sales taxes are used to reduce property taxes and increase own source revenues in the jurisdictions in which they are used. Afonso hypothesizes that the use of local option sales taxes will reduce property tax burdens and increase own source revenue (2014: 26). The data used to test the hypothesis is made up of counties in 35 states, of which 17 states allowed counties to implement a local option sales tax during the time period of the study (1983 – 2004), while 18 did not. The remaining 15 states that were not included in the analysis did not maintain records of the local option sales tax rate by county for the time period covered by the study (Afonso, 2014: 31).

The ultimate outcome is that Afonso's hypothesis is correct – local option sales tax revenue is used to both decease property tax revenue and increase own source revenue per capita (Afonso, 2014: 39). Afonso notes that a limitation of the study is the fact that there is no guarantee a local option sales tax will produce the revenue desired by municipal leaders, especially when taking into consideration the size of the tax base and that of neighbouring municipalities (which may or may not have their own local option sales tax) (2017: 41). Again, this study may be of limited application due to the fact that it deals with a general municipal sales tax versus a targeted tax on accommodations. In addition, the outcomes in the United States may not be generalizable to Canada. However, it does provide interesting information on the impact on property taxes when a municipality begins to rely on alternative sources of revenue.

The Association of Municipalities of Ontario (AMO) published a paper in 2017 that advocated for a 1% tax to be added to the existing HST where that 1% would be allocated to municipalities – called "The Local Share". AMO states that this 1% municipal sales tax would be used to fund the infrastructure financing gap facing municipalities (2017: 6). In support of its paper, AMO relies mostly on data from the United States, where AMO asserts that 25 states permit a local sales tax of at least 1%. In the paper, AMO also mentions a list of other revenue generating tools that were examined in their research, including a hotel or accommodation tax. However, the mention of an accommodation tax is very limited and is not examined in any level of detail in the paper. The other revenue generating tools that are discussed in at least brief detail in the paper are powers available to the City of Toronto under the COTA, such as taxes on alcohol, tobacco, entertainment and vehicle registration.

Revenue Generation and Accommodation Taxes Internationally

Although there is a lack of research available in Canada on accommodation taxes, there is research available from jurisdictions where accommodation taxes are common and have been around for a longer period, such as the United States and Europe. A lot of this research on accommodation taxes focuses on whether the imposition of accommodation taxes has an impact on tourism. Heffer-Flaata et al. note that "the positive and negative aspects of tourism taxes are well established, though the literature is far from consensus on which effect dominates" (2021: 750). In line with the hypothesis of this paper, Cetin et al. note that funds collected through tourism should be spent in areas related to tourism, however "this is not the case in the majority of destinations, as studies have shown, where local governments regard taxes from tourism industry as free revenue, since tourists are unlikely to vote" (Cetin et al., 2017: 4).

In their 2021 article, Plzakova and Studnicka note that "in recent years there has been a rapid increase in the number of municipalities applying local taxes (charges and fees) related to the performance of the tourism, hotel and spa industries in the European Union member states" (2021: 70). Although fees such as accommodation taxes have existed for many years, it appears they are growing in popularity. This is demonstrated in Ontario by the fact that these types of taxes were not permitted by the Provincial Government until late 2017.

Further, in explaining the use of fees and charges in Europe, Plzakova and Studnicka note that "local charges and fees are only rarely related to a certain purpose…so that the collected money generated from them must be reinvested in the support of the development of tourism in a specific territory" (2021: 70). This contrasts with Ontario, where the legislation mandates that a specific portion of revenues from accommodation taxes must be allocated for tourism initiatives. As will be discussed later in this literature review, some jurisdictions treat the taxes as a revenue generating tool to reduce the burden on residents, with only a small portion being dedicated to tourism initiatives.

The literature on whether accommodation taxes are a positive or negative for the region in which they are imposed is mixed. Lee's 2014 article looking at comparator municipalities Midland and Odessa, Texas in the United States found that "hotels competing for similar demand without occupancy taxes are likely to be in a comparative advantage over the hotels that are subject to the occupancy tax" (53). Using a random effects spatial model, Lee found significant evidence of competitive disadvantage created by the adoption of the hotel tax and corresponding higher prices for hotels in Midland versus Odessa (2014: 54). Similarly, Collins and Stephenson researched the impact of the introduction of a $5 per night hotel tax in Georgia in 2015. They used monthly hotel occupancy and price data from 50 states in the United States to conclude "that the tax reduced the number of rooms rented in Georgia by about 92,000 per month and that hotel operators were not able to fully shift the tax to travelers" (Collins and Stephenson, 2018: 11). Both papers found that the addition of a hotel tax disadvantaged those regions where it was imposed.

This is contrasted with research conducted by Heffer-Flaata et al. that studied the impact of tourist taxes on outbound UK travel demand. Their results indicate that tourist taxes only sometimes had an impact on demand, depending on the destination and time of year travelled. For popular destinations, "the numbers of UK arrivals to the largest taxed destinations in each country…do not seem to be significantly affected by the taxes" (Heffer-Flaata et al., 2021: 756). When discussing timing of vacations, the researchers noted that "during the peak summer period, both French and Spanish cities are, overall, negatively affected… [by tourist taxes], while the impact on Italian destinations is not significant" (Heffer-Flaata et al., 2021: 756). Heffer Flaata et al. note that market power of the destination has an impact on whether tourist taxes impact demand, with desirable and popular tourist spots being more resilient to accommodation taxes (2021: 756 – 758). This is similar to the findings of Bonham et al., who studied the impact of a hotel room tax increase in Hawaii. They found the tax did not have a significant negative effect on hotel revenues, theorizing this was because a 5% increase in lodging expenditure represents less than 1.5% of the total cost of a typical vacation in Hawaii (Bonham et al., 1992: 439).

There were interesting insights into how various municipalities in the United States are utilizing the revenue from accommodation taxes that they have imposed in Hudson et al.'s 2021 article. The authors studied the effect of lodging tax increases in eight different locations in the United States – seven cities and one state. As part of their research, they noted the City of Chicago's high tax rate on lodging of 17.4%, with two increases within the last six years (Hudson et al., 2021: 211). They highlighted that the "most recent 1% increase in 2016 generated US$474 million of extra income yearly, which was earmarked largely for government worker pension costs" (Hudson et al., 2021: 211). This is notable, as this is clearly a portion of the tax that is not being used for tourism initiatives and instead is entirely meant to help the city's finances and long-term pension obligations.

In contrast, the City of Cincinnati, whose lodging tax increased in 2013 from 8.27% to 11.77%, utilizes the revenue to cover construction debt on several convention centres and "it currently infuses cash into marketing campaigns designed to drum up tourism and convention business" (Hudson et al., 2021: 211). Another case where hotel taxes are used exclusively for tourism is El Paso, Texas. Here, hotel tax revenues must be spent to enhance and promote tourism and the tax was increased in 2012 from 15.5% to 17.5% to support the funding of a new baseball stadium (Hudson et al., 2021: 212). These are both examples of cities who primarily use the revenue for funding only tourism-related infrastructure and initiatives.

An example of a hybrid of the two approaches is Riverside, California. Hudson et al. noted that between 2012 and 2014, the city increased its lodging taxes from 11 to 13% to increase tourism and promote the destination but noted that the "city also planned on using the money to help repair aging buildings and replace city assets" (2021: 211). Another example is the municipality of Gilbert, Arizona. In 2013, lodging taxes were increased from 8.27% to 11.77% and "the city unanimously voted to modify the lodging tax and use the proceeds collected from the increase to support general operations of the city" (Hudson et al., 2021: 212). In this case study, revenue was previously devoted to tourism, but the city voted to increase the tax charged and reallocate the resulting increase in funds to general municipal coffers.

Another insightful line of research looks at whether revenue from accommodation taxes is being spent in accordance with the stated purpose of these funds. In their 2006 article, Litvin, Crotts, Blackwell and Styles look at the expenditure of accommodations tax revenue in South Carolina. In the article, they note that most states in the United States "promote tourism with funds generated by taxing their visitors" (Litvin et al., 2006:150). The authors point to two differing opinions on accommodation taxes: those who oppose the tax or support it only if the funds are provided directly to tourism initiatives, and those that "see tourism taxes as 'free' revenue, because their burden generally falls on nonconstituent tourists rather than local citizens" (Litvin et al., 2006: 150).

In the article, the authors provide an overview of the accommodation tax legislative structure in South Carolina. They note that "the first $25,000 and 5% of the balance is directed to the municipality or county government's general fund to be spent in any manner the local government sees fit; 30% of the remaining balance is allocated to a special account dedicated to the advertising and promotion of tourism… and the remaining 65% balance is deposited in a special fund earmarked specifically for local tourism-related expenditures" (Litvin et al., 2006: 152). The authors then detail a list of categories where the 65% of the funds is authorized to be spent in areas such as advertising of tourism; promotion of cultural events; construction of facilities for cultural activities; and funding of the criminal justice system, health facilities and solid waste collection.

As a result of their research, the authors found that "more funds were spent providing facilities and public services…than were allocated to the promotion of events" (Litvin et al., 2006: 155). The authors distinguish between "hygienic" and "motivational" expenditures, stating that hygienic expenditures are to provide facilities and public services, whereas motivational expenditures were allocated to the promotion of events (Litvin et al., 2006: 155). The authors conclude that "those municipalities that have allocated accommodations tax monies for purposes such as garbage removal, policing, and maintenance in the tourism zone, all legal per the tax laws, are simply funding hygienic necessities they would have provided in any case from their general funds…with the likely result that "motivational expenditures, to include creating and sponsoring festivals and special events to attract new visitors, get squeezed from the budget" (Litvin et al., 2006: 155).

There are limitations to the study since the authors excluded data from the fifteen largest tourism entities in South Carolina as they deemed these "outliers" where the hotel revenue exceeded $20 million annually. The authors justified their decision in an attempt to eliminate the competing influences from these higher traffic tourist areas. They note that within these areas, the accommodation tax is one of only several viable sources of revenue. The authors felt excluding these areas would allow a clearer picture of the relationship among the variables they tested in their study (Litvin et al., 2006: 153). It is interesting to note that the findings were that if a municipality allocates the funding to more of the "necessity" expenditures, it was less likely to fund more of the purely tourism-related initiatives. This aligns with the hypothesis of this paper that municipalities may be using the discretionary funds to supplement their own budget line items rather than devote these funds to tourism funding or using these funds to supplement tourism initiatives.

As demonstrated above, research specifically on the use of a municipal accommodation tax in Ontario or Canada is extremely limited. The existing literature on municipal revenues and alternative revenue sources in Canada seems to be very focused on the property tax as well as other hypothetical taxes such as a tax on personal income and/or a broad municipal sales tax. Permitting additional revenue generating sources such as an accommodation tax appears to be relatively new in Canada despite this being common in other jurisdictions for many years. However, there is research available regarding the use of accommodation taxes in the United States and Europe which provides insights. The literature is mixed in terms of whether these taxes are good or bad for the jurisdictions in which they are levied, although they are widely popular and present in most states and countries in Europe. The Ontario legislation permits municipalities discretion over a certain portion of the accommodation tax revenue but does require a prescribed portion to go to tourism initiatives. The United States literature provides insight into the expenditure of this revenue and the fact that some jurisdictions allocate this to tourism spending, some allocate to tourism and other general expenditures of the municipality, while others use the additional taxation to line municipal coffers for general purposes.

Research Design and Methodology:

Research Aim and Question

This research and paper look to examine what municipalities in Ontario are doing with the MAT revenue that they have discretion over and whether this is being used as a revenue generating tool for municipal coffers, being utilized for tourism initiatives or a hybrid of the two approaches. The research question that this paper will explore is: How are municipalities in Ontario utilizing the Municipal Accommodation Tax (MAT) revenue that they have discretion over?

Framework, Data Sources and Limitations

The research strategy used in this paper involves working from observation through looking at various publicly available content such as by-laws, staff reports, budget documents and meeting minutes, to come up with a determination of what municipalities are doing with the revenue from the MAT that they have discretion over. The goal of the research is to identify trends in how municipalities are allocating this revenue. Some by-laws and many staff reports contained information as to what is the intended use of the revenue that is not prescribed to be allocated to a specific tourism purpose by the legislation. In addition, looking at budget documentation provided insight into where municipalities have allocated the accommodation tax revenues.

The research involves all 444 municipalities in Ontario and the sample used to determine the findings in this paper includes all municipalities in Ontario that have approved and/or implemented a MAT as of the end of May, 2021.

The Ontario Ministry of Municipal Affairs and Housing has a list on their website which details the names of every municipality in Ontario, its municipal status (lower tier, upper tier, single tier) as well as the geographic area that the municipality is located in. The first step in collecting the information needed to answer the research question was to eliminate upper-tier municipalities from the scope of the research. The MAT is one that is implemented by a lower-tier municipality, or a single-tier municipality in those jurisdictions that do not have an upper and lower-tier structure. Based on excluding the upper-tier municipalities, 414 of 444 total municipalities in Ontario remain relevant to the research question. The remaining 414 municipalities were examined to determine which have approved a staff report to implement a MAT and/or passed a by-law to implement a MAT. Only those municipalities that have either approved a MAT to be implemented and/or passed a by-law as of May 31, 2021 have been included in the scope of the research.

To make a determination as to which municipalities in Ontario have either approved the implementation of a MAT and/or passed a MAT by-law, each municipality's website was visited to search for documentation, by-laws, Council agendas, budget documents and meeting minutes pertaining to accommodation taxes. On each website, provided the functionality was available, a general search was conducted for the following terms:

"accommodation tax", "435/17" and "MAT". While the search terms "accommodation tax" and "MAT" may be self-explanatory, the "435/17" search term denotes the numbers for the Ontario Regulation that permits the passing of a by-law to impose an accommodation tax. Reference to the regulation would often be found in the preamble to the by-law and/or referenced in staff reports, presentations and Council documents discussing the ability to impose an accommodation tax. If a municipality had passed a MAT by-law, often these searches would turn up the by-law itself and/or associated staff reports and Council documentation approving the implementation of an accommodation tax.

In addition to the general search, if a municipality had a publicly available repository of council agendas and minutes, the search terms "accommodation tax", "MAT" and "435/17" would be searched in the repository to see if any matches appeared. This extra step was taken as the general search functions on some municipal websites were not always the best at returning relevant results. It was important to include additional searches that may reveal the existence of a MAT staff report and/or by-law that did not appear in the general search function.

On top of using search functions on each municipality's website (if available), each municipality's website would be checked for a "by-law" subsection or webpage. Many municipalities either had an entire repository of every by-law that had been passed (at least in recent years) available online, or listings of the most frequently accessed or requested by-laws. If a municipality posted a repository of all by-laws passed, the by-laws from 2017 to 2021 would be reviewed to see if a MAT by-law had been passed. For those municipalities with a frequently requested by-law list, the list would be reviewed for the existence of a MAT by-law.

Lastly, a general Google search of the municipality name and the words “accommodation tax” was conducted for each municipality. Often if an accommodation tax was being discussed at a Council meeting, it was being reported in the local news as the imposition of accommodation taxes were controversial in some jurisdictions, with vocal proponents and opponents. If the various searches being conducted on a municipal website did not reveal the existence of an accommodation tax, a local news story would often indicate whether an accommodation tax had been imposed. Based on the date of the news article, specific committee and/or council meeting agendas could be pinpointed for review on municipality websites from that same period of time to find the associated staff reports and meeting minutes.

It should also be noted that the information was very easily accessible for a lot of the municipalities with mid-sized and larger populations, such as the City of Toronto or City of Markham. For some municipalities, they had entire webpages on their websites dedicated to information regarding their accommodation taxes, including necessary documentation, copies of the by-law, associated staff reports and answers to frequently asked questions.

There are limitations with the way that the data was collected regarding whether a municipality had passed an accommodation tax by-law. It is possible that a municipality that has approved the implementation of a MAT may have been missed given only documentation available online was used to make a determination as to whether or not a MAT had been approved for implementation and/or a MAT by-law had been passed by the municipality. The research did not include definitively confirming this information by contacting the Clerk for each municipality. Some municipalities, particularly those with lower populations, had archaic websites that made searching for this information difficult, or sometimes the websites simply looked as if they had not been updated in a long time. It is possible that some of these municipalities could have approved implementation of a MAT and/or passed a by-law, but this information was simply not available online.

While not a definitive factor, those municipalities with lower populations, particularly populations under 1000 people, were less likely to have imposed a MAT. It is hypothesized this is because these types of municipalities likely have no or very low numbers of accommodations that could be taxed. If a smaller municipality does not have a tourist base and either no or one or two accommodations, it likely does not make sense for a municipality to pass a by-law imposing a MAT that will generate little to no revenue but still require administrative resources. These very small municipalities were often the ones that either lacked functional websites or their websites were not as up to date as other municipalities in Ontario. Although the likelihood is low that these municipalities have implemented a MAT that was not found by the researcher, it is possible it could have been missed due to not having this information available online. With that in mind, it is reasonable to assume that in the event a municipality's MAT was missed in this research, it is unlikely to materially impact the conclusions drawn in the analysis.

Methodology for Coding the Data and Limitations

For the discretionary portion of the MAT, a coding system was created where each municipality that has an accommodation tax was assigned a category depending on how they are using the discretionary funds. The three categories utilized to bucket the use of discretionary funds were as follows – tourism only; tourism and other; and other only. The working hypothesis at the beginning of the research was that the discretionary MAT funds are not being used to supplement tourism budgets, given a large portion of the revenue is mandated to be used for tourism, and the funds are instead being used to offset spending for other general budget line items.

Given the relative newness of the ability to levy a MAT in Ontario as outlined in Table 1, the information was coded based on the intent that was stated or could be inferred by the documentation reviewed. While it would have been ideal to have years of budget data to compare stated intent versus actual expenditures, the MAT is simply too new in many municipalities to be able to do so. Even for municipalities that were early adopters of a MAT, there is administrative set-up that needs to occur. It takes time to both find or create an eligible tourism entity for utilizing the portion of the funds that are mandated to go to tourism, and to create a system to collect the funds. With the addition of the COVID-19 pandemic, which put many tourism initiatives on hold, in many municipalities we are just beginning to see budget information as to where MAT revenue is being spent. Given this limitation, the categorization for discretionary funds is primarily based on stated or inferred intent of use of the revenue.

Table 1: Breakdown of Implementation Year of MAT By-laws

Year	2018	2019	2020	2021	2022
# of By-laws	11	23	6	4	1

When conducting this research and explaining each category, the use of case study examples for each category is perhaps most instructive.

Case Studies

Tourism Only – The City of Cambridge

A good example of a municipality who intends to use the funds for tourism only is the City of Cambridge. In the Council report outlining the MAT parameters, the City decided to impose a 4% tax and directs staff to create a MAT Reserve Fund to segregate the City of Cambridge's portion of the MAT revenue for uses outlined in the report (City of Cambridge, 2019: 1). The staff report highlights that "it is important that the municipal share of funds raised through the Municipal Accommodation Tax be segregated and only used for approved municipal purposes to demonstrate transparency and accountability to the hospitality industry" (City of Cambridge, 2019: 5).

An interesting component of the City of Cambridge's MAT is that part of the revenue is to be shared with the upper-tier municipality, the Region of Waterloo (City of Cambridge, 2019: 1). The way the MAT is set-up in Cambridge is that 50% of the revenue is to be provided to the Waterloo Region Tourism Marketing Corporation (an eligible tourism entity, as required by legislation); 40% of the revenue is to be kept by the City of Cambridge and 10% of the revenue is to be provided to the Region of Waterloo (City of Cambridge, 2019: 1). In conducting the research for this project, the Region of Waterloo and its local municipalities were the only grouping of municipalities to share the revenue in this manner, where MAT revenue is shared with the upper-tier municipality.

Of the revenue retained by the City of Cambridge, the staff report provides that the 40% "would be used to support and enhance tourism, sport and cultural offering, as well as major event attraction efforts in a variety of ways" (City of Cambridge, 2019: 8). The report provides an appendix which lists potential uses for the City's share of the MAT revenue, with the intent that a formal policy be brought forward for Council approval to ensure the segregated funds are only being used in accordance with the Council-approved reserve fund policy (City of Cambridge, 2019: 24). The potential uses listed include market research; tourism, sport and cultural infrastructure; bid and grant funding for international national and provincial-scale events; major festival and event expansion/development; sport/festival/event infrastructure; and additional staff resources to support tourism efforts (City of Cambridge, 2019: 24).

When looking at the City of Cambridge's 2021 Budget and Business Plan, the MAT revenue shows as its own line item. On the reserve and reserve funds pages of the budget document, there is a subsection under "Discretionary Reserve Funds" specifically for the MAT revenue (City of Cambridge, 2020: 85). It is very clear that the funds are segregated from the general pool of revenue so that they can be used for Council-approved tourism purposes as outlined in the staff report approving the MAT.

Tourism and Other – The City of Toronto

The City of Toronto is a municipality which intends to use the MAT revenues for tourism initiatives as well as other general municipal spending. Neither the by-law itself nor the staff reports approving the MAT were helpful in determining how the discretionary funds were going to be used. In addition, it was difficult to find information on the City of

Toronto's website that contained details about utilization of the MAT revenue. The website is focused on end-users impacted by the MAT, such as hotel and short-term rental providers, and providing them with information and resources.

However, the City of Toronto did publish a questions and answers document to respond to commonly asked questions regarding the MAT. In this document, one of the questions posed is what the tax revenue will be used for (City of Toronto, 2018: 1). The response provided is that some of it will go towards supporting tourism but "the tax revenue will also provide funds for the City to support programs and services, such as road repair, transit, police, EMS, economic development, culture, parks and recreation, that visitors have the ability to take advantage of when they visit Toronto" (City of Toronto, 2018: 1). While the response links the use of revenue to tourism, there are a number of items that the revenue will be used for outside of tourism that are items the city would spend on anyways.

In looking at City of Toronto budget documents, specifically at budget documents pertaining to areas that the city noted would be utilizing MAT revenue, such as emergency services, economic development and parks, there is no separation of MAT funding from other revenue. Each Department has budget documentation pertaining to their respective areas, but there is no breakdown to show where the MAT revenues are being utilized within the budget.

The City of Toronto example demonstrates that the city will be using some of the revenue generated from the MAT on general municipal expenditures. Without the MAT revenue, the city would be spending on these line items anyways, but the addition of the

MAT revenue allows the city to offset some of its typical spending on these budget items by replacing some of the revenue with MAT funds. Theoretically, this could reduce the burden on local property owners that pay property tax to the city, as the city is making supplementary revenue from the MAT that offsets some of their spending.

Other Only – The City of Dryden

As mentioned previously in this paper, for some of the less populated municipalities in Ontario, it was sometimes difficult to find information about the MAT, and more specifically the use of revenue. Often their websites would contain little information regarding the MAT, whereas some of the larger municipalities had dedicated webpages, access to required forms and filings, and answers to frequently asked questions. When reviewing documentation regarding the MAT at the City of Dryden, it was difficult to discern what the funds would be used for as none of the documentation contained a clear or definitive answer. In the staff report seeking approval to move forward with the MAT, it was noted that 50% of the revenue would need to be provided to an eligible tourism entity and 50% would be added to City of Dryden revenues (City of Dryden, 2019: 3 – 5) but the report did not contain additional information regarding what the discretionary funds would be used for. Budget documentation that was reviewed was also not very helpful. The MAT revenue was included as a separate line item in the budget but included among all other types of revenue received by the municipality, including transfers from reserve, cash, rental and miscellaneous revenue (City of Dryden, 2021: 2). There was little to no information about how the MAT revenue was going to be used.

Without documentation that provided a clear indication of how the discretionary MAT funds were going to be utilized by the city, a deeper dive needed to be undertaken to assign a category for the city's use of MAT funds. A telling quote from the City of Dryden's Chief Administrative Officer (CAO) was found in a local news report following approval of the MAT. CAO Robert Nesbitt is quoted as saying "it's exciting for the community as it provides a new revenue stream [and for] the portion that comes back to the municipality, it can be used for virtually any budgeted expenses within the municipality." (Ebbeling, 2019: 1). To find out more information regarding how the money was going to be spent, videos of Council meetings where the MAT was being discussed were viewed. In an October 2020 Committee of the Whole meeting where financial implications to the MAT revenue due to COVID-19 were being discussed, the Treasurer noted that revenue was down 15% from targeted levels. In response, Mayor Greg Wilson mentioned he was not concerned as the MAT revenue is "found money" (City of Dryden, 2020).

Based on the information from the staff report, media interviews and the way the Mayor spoke about the MAT revenues, the use of MAT funds for the City of Dryden was categorized as other only because from the information available, it looks like this revenue will just be added to the general coffers of the municipality instead of being allocated to any specific item or initiative.

As illustrated above using the case studies, there were various avenues used to determine the appropriate coding and categorization for how MAT revenue is being spent in Ontario municipalities. Often this information was disclosed in staff reports, budget documents, the by-law itself or in information contained on the municipality's website.

Occasionally however, the intended expenditure of the MAT revenues was not clearly disclosed. It was sometimes necessary to go beyond Council and website documents to review videos of Council meetings where the MAT was being discussed and review local news articles in order to come to a determination for coding purposes.

In terms of the coding, there is a risk that there is bias in how the data is coded depending on the interpretation of the documents reviewed. However, this risk is mitigated as one reviewer was coding all the data collected. This leads to more limited consistency issues because multiple people were not coding different sections of the data. Ideally there would have been multiple people coding all the documents so they could be compared for consistency purposes. However, this was outside of the scope of this research project.

Analysis and Findings

In total, a little over 10% (45 of the 414) eligible municipalities in Ontario have approved the implementation of a MAT and/or passed a MAT by-law. Somewhat surprisingly, the majority of municipalities are using (or planning to use), MAT revenues towards tourism initiatives or tourism and other, while only a handful intend to use the funds for other budget items exclusively. The “other” category encompasses several expenditures, such as road maintenance, transit, parks and recreation and supplementing emergency services budgets.

Table 2 – Breakdown of Utilization of MAT Revenues

	Tourism	Tourism and Other	Other Only
# of municipalities	26	14	5

This finding is not in line with the hypothesis of this paper, which predicted most municipalities would use the ability to levy a MAT as a revenue generation tool to offset general municipal expenditures. Although there are municipalities utilizing the funds, or at least part of the funds, for general purposes, the majority have earmarked these funds exclusively for tourism initiatives. It is important to note that due to the accommodation tax being so new in many municipalities, a lot of the categorization was completed based on intended use of the funds versus actual use of the funds. An area of potential future research would be to examine actual expenditures compared to intended utilization over time.

Even for municipalities that implemented a MAT very soon after the regulation permitted them to, it takes time in order to get the necessary administrative back-end processes (i.e. creation of eligible tourism entity) established before the money can be spent. This factor, combined with the timing of the COVID-19 pandemic putting a halt on many major tourism initiatives, means that a lot of the MAT revenue has been collected but not yet spent. An example of this is the City of Sarnia, which passed a MAT by-law in February 2020, effective July 1, 2020. The original intent was to have Tourism Sarnia-Lambton act as the eligible tourism entity, but there was disagreement about use of the funds and administrative fees. In June 2021, Sarnia Council voted to "oust Tourism Sarnia-

Lambton as manager of the municipal accommodation tax funds and instead set up a grant program under the umbrella of the city economic development with the 50 per cent of the money that would have otherwise gone to the tourism organization, less administrative and collection costs" (Kula 2021: 1). In this case, the accommodation tax had not even been collecting funds for a year before disagreements arose, so the revenue collected has not been spent. In addition, given the change in direction, the stated intention for use of the revenue may change.

An interesting observation from the findings is the distribution throughout the Province of municipalities that have imposed a MAT. The assumption would be that larger municipalities with a strong hotel and tourism industry would be the main drivers of municipalities in Ontario imposing a MAT. However, the results of the research indicate that there is wide variability throughout Ontario. There are many municipalities in the Greater Toronto Area that have not yet imposed an accommodation tax, which was a surprising finding.

There are municipalities with strong tourism roots, such as the City of Kingston, Prince Edward County and Huntsville, where it was expected to see a MAT being imposed given the popularity of these areas within Ontario. However, it was surprising to see so many smaller, northern municipalities that have imposed an accommodation tax, such as the Town of Cochrane, City of Dryden, Town of Fort Frances, Town of Marathon, Sioux Lookout and Red Lake. All the listed northern municipalities have populations of less than 10,000 people and are not known tourist destinations. It was surprising to find that these municipalities have imposed a MAT at all.

Perhaps less surprisingly is that except for Red Lake and Cochrane, all of these municipalities were categorized as allocating the MAT revenue that they have discretion over on tourism and other or other only. Only Red Lake and Cochrane indicated that the funds would be spent exclusively on tourism initiatives. It is possible to hypothesize that these smaller municipalities are looking for further avenues to generate revenue given their relatively small property tax base. It would provide for interesting research to follow-up with these municipalities several years after the MAT has taken effect to see what has actually been done with the revenue generated and what percentage of the funds are being used for tourism initiatives versus funding of general municipal expenses.

The finding that most municipalities are intending to spend the discretionary portion of the MAT revenue on tourism initiatives is in line with research completed by Cetin et al. that studied willingness to pay for tourist taxes in Istanbul. Based on the research in this study, tourists are willing to pay taxes if they are earmarked for investments that might improve their experiences. Cetin et al. concluded that “funds collected from tourism activity at a destination should be spent particularly on areas that enhance tourist experience (i.e. general infrastructure, tourism superstructure, tourist services and community welfare) in order to ensure long-term growth in tourist tax revenues” (2017: 11). It is possible that Ontario municipalities, who are late adopters of accommodation taxes based on a global comparison, have benefitted from the experience of other jurisdictions. Research indicates that willingness for tourists to pay the accommodation taxes is linked to their experience, so it makes sense to utilize the MAT revenue to fund tourism initiatives that will enable municipalities to continue to charge, or increase, accommodation taxes.

Conclusion and Further Research

Accommodation taxes are becoming more widespread in Canada, and specifically Ontario, while other jurisdictions such as the United States and Europe have levied these types of taxes for a longer period. In Ontario, only a portion of the taxes collected must be allocated to tourism initiatives by legislation, however, it is the intention for most municipalities that have approved a MAT that the revenue collected that they have discretion over will also be allocated to tourism. The findings were not aligned with the hypothesis of this paper which predicted the new revenue would be used more frequently to offset general municipal spending.

An area of further research would be to confirm in several years time if municipalities that have implemented a MAT are doing what they intended with the revenue or whether there has been dipping into the revenue for other purposes. In their 2006 study, Blackwell et al. examined local government compliance with accommodation tax revenue earmarked for tourism promotion (2006: 212). They found that “local governments do succumb to the temptation to use these funds for purposes other than their intended purpose and that this tendency can be explained by the local governments’ proportion of the earmarked revenue to general revenue and the local governments’ level of financial flexibility, measured by the proportion of the local governments’ budget held in reserve.” (Blackwell et al., 2006: 213).

Blackwell et al. concluded that “the more financial flexibility the local government has, the less inclined it will be to misuse tourism funds for other projects” (2006: 224). The finding was that those municipalities with larger resources and reserves were less likely to redirect funds intended for tourism. This appears to align with my finding that a group of smaller northern municipalities that have implemented a MAT intend to use the funds for tourism and other general municipal spending, as these municipalities have a smaller property tax base to draw from. In a few years time, reviewing the MAT revenue expenditures of these municipalities to see how much is actually spent on tourism versus allocated to general municipal expenses may add support for Blackwell et al.'s findings.

It will be interesting to see how this plays out in Ontario municipalities. Despite intending to allocate the MAT revenue that they have discretion over to specific items, largely tourism-related expenditures, it may be tempting for municipalities to utilize this revenue to offset spending in other areas. This is particularly true for municipalities that are strapped for resources. Follow-up research in several years comparing the intended use versus the actual use of MAT revenue would prove informative.

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Appendix 1: List of Municipalities in Ontario with a Municipal Accommodation Tax as of May 2021

	Municipality	Effective Date of MAT
1.	Barrie, City of	January 1, 2019
2.	Belleville, City of	July 1, 2019
3.	Brockville, City of	May 1, 2018
4.	Cambridge, City of	July 1, 2019
5.	Cochrane, Town of	July 1, 2019
6.	Cornwall, City of	June 1, 2018
7.	Dryden, City of	January 1, 2020
8.	Fort Frances, Town of	January 1 2019
9.	Gananoque, Town of	December 31 2019
10.	Greater Sudbury, City of	September 1, 2018
11.	Hearst, Town of	January 1 2019
12.	Huntsville, Town of	April 1, 2019
13.	Kapuskasing, Town of	July 1, 2019
14.	Kenora, City of	September 1, 2018
15.	Kingston, City of	August 1, 2018
16.	Kitchener, City of	July 1, 2019
17.	London, City of	October 1, 2018
18.	Marathon, Town of	June 1, 2019
19.	Markham, City of	January 1 2019
20.	Mississauga, City of	April 1, 2018
21.	Niagara Falls, City of	January 1, 2019
22.	North Bay, City of	February 1, 2019
23.	Oakville, Town of	January 1, 2019

24.	Orillia, City of	September 1, 2020
25.	Oshawa, City of	April 1, 2021
26.	Ottawa, City of	January 1, 2018
27.	Peterborough, City of	October 1, 2019
28.	Point Edward, Village of	January 1, 2020
29.	Prince Edward, County of	February 1, 2021
30.	Quinte West, City of	July 1, 2019
31.	Red Lake, Municipality of	January 1, 2021
32.	Sarnia, City of	February 10, 2020
33.	Sioux Lookout, Municipality of	January 1, 2020
34.	South Bruce Peninsula, Town of	January 1, 2022
35.	Stratford, City of	January 1, 2021
36.	Terrace Bay, Township of	January 1, 2020
37.	Thunder Bay, City of	September 1, 2018
38.	Timmins, City of	May 1, 2019
39.	Toronto, City of	April 1, 2018
40.	Vaughan, City of	April 1, 2019
41.	Waterloo, City of	July 1, 2019
42.	Wellesley, Township of	July 1, 2019
43.	Wilmot, Township of	July 1, 2019
44.	Windsor, City of	October 1, 2018
45.	Woolwich, Township of	July 1, 2019