



CITY OF FORT BRAGG

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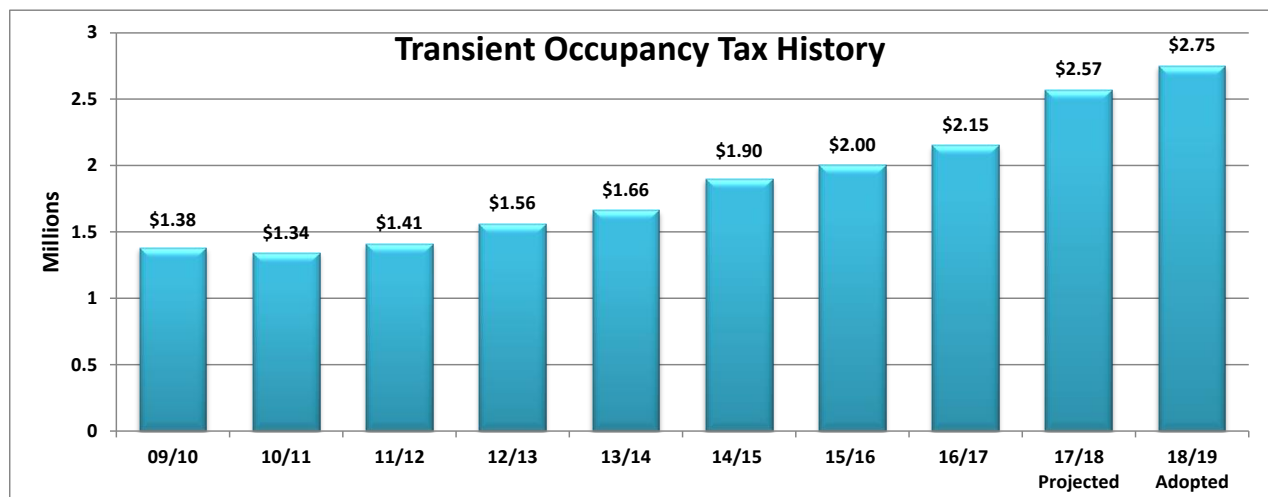
FINANCE AND ADMINISTRATION COMMITTEE

MEETING DATE: November 7, 2018
TO: Finance and Administration Committee
AGENDA ITEM TITLE: **Receive Report Regarding Proposed Audit and Outsourcing Administration of The City's Transient Occupancy Tax Revenue Stream and Provide Direction to Staff**

BACKGROUND AND OVERVIEW:

Transient Occupancy Tax (TOT) is a local tax that is applied to the cost of hotel or other lodging stays of less than 30 days. In 2016, with passage of local Measures AA and AB, the City's TOT rate increased from 10% to 12%. This tax is a revenue source solely for the General Fund. TOT is collected by lodging establishments and remitted to the City on a monthly basis. Factors influencing TOT revenues include vacancy rates, changes in business and leisure travel, new hotels, hotel expansion, and room rate increases.

Based on year-to-date receipts, FY2017/18 year-end TOT revenues are projected to be approximately \$2.6 million. The FY2018/19 Budget projects continued growth in TOT revenue at a rate of 7%. The anticipated TOT revenue total for FY2018/19 is \$2.8M which would be an all-time high for Fort Bragg. In FY18-19 the City is set to launch an aggressive marketing campaign with the intent of increasing tourism and hence TOT revenue. Once the marketing campaign gets under way, it is possible TOT revenue may increase even further.



The City collects Transient Occupancy Taxes in accordance with the City's Municipal Code, chapter 3.12. Additionally chapter 3.12 of the Municipal Code authorizes the City Tax Administrator (currently assigned to the City Finance Director) to audit the financial records of the City's TOT taxpayers to determine the accuracy of tax returns filed. Auditing of tax revenues is an important financial tool used to help ensure tax compliance and maximize the City's revenue collection. The City has not conducted a TOT audit in the last five years and it is not known if the City has ever audited this very important revenue stream.

Staff has solicited proposals from two revenue enhancement firms that operate in California; Muni Services and Hdl. Outside of local CPA firms, these are two of the primary companies operating in this field in California. Each of the two proposals are attached to the agenda item. Each firm provided a cost to conduct a one-time audit and also a proposal for full administration and audit services.

If the City moves forward with a one-time audit, some anxiety and displeasure is likely to be voiced by some of the local hotel operators. This is a common and natural reaction to being audited. This may be compounded somewhat due to the long period of time since the last audit was conducted. On the other hand, many hotel operators may view the audit as a means of ensuring fair competition in the market. Both firms in consideration have a long history of conducting audits and understand the importance of conducting themselves professionally and unobtrusively.

If the City moves forward with full administration and audit services, again staff would expect some anxiety and displeasure to be voiced by some of the local hotel operators. Most people are creatures of habit and often react adversely to change. There also could be some distrust of an outside non-local company. Ultimately however, staff believes most if not all hotel operators would embrace the conveniences provided by an outside administrator and view the change as an improvement. The primary convenience hotel operators would gain is the ability to file and pay their TOT tax return on-line. Both companies also provide dedicated customer support by phone.

Hdl Pricing:

Audit Service: \$40,500

Administration Service; \$17,550 annually

Muni Services Pricing:

Audit Service: \$30,400

Administration Service; \$4,050 annually

In-House Cost of TOT Administration:

Currently City staff administers the City's TOT program. The in-house cost of administering the program consists primarily of staff time with effort being expended by the City's Finance Technician I, Finance Technician II and the Finance Director. Tasks include cashiering, data entry, filing, delinquency and other follow up as well as data summary and reporting. The annual in-house cost of administering the program is estimated at \$2,500.

Although the cost of outsourcing the City's TOT administration is slightly higher than the in-house cost, the benefits to the hotel operators as well as increases in revenue due to a higher rate of accurate filings, better reporting and analysis tools, has the potential to more than offset the additional cost.

RECOMMENDATION:

Staff recommends hiring Muni Services to provide both an initial TOT audit as well as ongoing TOT administration services for the City. Staff recommends funding the contract with measure AA/AB tax revenue with each of the four program areas bearing a proportionate share of the cost. This recommendation is in line with the City's Fiscal Policy 4.(d).

ALTERNATIVES:

1. Recommend hiring one of the two firms to conduct a one-time audit
2. Make no recommendation to Council

ATTACHMENTS:

1. Muni Services proposal
2. Hdl proposal