



OFFICE OF THE CITY AUDITOR
Long Beach, California

R-24

LAURA L. DOUD, CPA
City Auditor

May 20, 2008

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATIONS:

Request the City Attorney to prepare language amending the Long Beach Municipal Code to allow the City to retain Transient Occupancy Tax (TOT) collected for the first 30 days of a non-transient's stay. Additionally, propose to the Redevelopment Agency that it consider amending the Agency's TOT ordinance to be consistent with the City's approach.

DISCUSSION

Background

Long Beach Municipal Code (LBMC) 3.64 authorizes the City to levy TOT on individuals who occupy a hotel room in Long Beach for a period of 30 days or less. The tax is collected by the hotel operator and remitted to the City on a monthly basis. The current TOT rate is 12%; six percent is deposited in the city's General Fund; and six percent is for revenue purposes needed for the City's Special Advertising and Promotion Fund. (Note that in the Downtown Redevelopment Area, the TOT is also 12%, with half going to the General Fund and half collected by the Redevelopment Agency under its own ordinance.) In fiscal years 2006 and 2007, the City collected \$16.5 million and \$18.3 million in TOT revenues, respectively.

The Office of the City Auditor has conducted a review of the City's Transient Occupancy Tax. The objective of our review was to find ways to generate additional TOT revenue for the City. Under the current Municipal Code, an individual who occupies a hotel room for 31 consecutive days is considered a "non-transient" and exempt from TOT. If the hotel operator has already collected TOT for the first 30 days, and the individual subsequently completes 31 consecutive days of occupancy, the amount is either refunded to the non-transient or credited to his or her account (LBMC 3.64.055).

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TOT Surveys

We conducted a survey of the top ten cities in California by population and an additional eight surrounding cities in order to determine if these cities refund TOT revenue for the first 30 days of a non-transient's stay. Of the 18 cities surveyed, 56% do not refund TOT revenue for the first 30 days of a non-transient's stay. For calendar years 2006 and 2007, we found that the City would have received an estimated \$187,000 and \$212,000, respectively, if TOT were not refunded to non-transients.

TIMING CONSIDERATIONS

Because additional revenue would begin accruing subsequent to the approval of these recommendations, prompt consideration is requested.

FISCAL IMPACT

Approval of these recommendations would result in the generation of approximately \$212,000 of additional annual revenues, with half (\$106,000) going to the General Fund and the other half going to the Special Advertising and Promotion Fund and the Redevelopment Agency. Additional funds generated for the Redevelopment Agency require a separate ordinance change by the Agency.

SUGGESTED ACTION:

Approve recommendations.

Respectfully submitted,



LAURA L. DOUD, CPA
CITY AUDITOR

ATTACHMENT: Report on Transient Occupancy Tax Review

Report on Transient Occupancy Tax Review

May 20, 2008



OFFICE OF THE CITY AUDITOR

LAURA L. DOUD, CPA
CITY AUDITOR

City of Long Beach, California

Report on Transient Occupancy Tax Review

May 20, 2008



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Executive Summary

Transient Occupancy Tax (TOT) is levied on individuals who occupy a hotel guestroom in the City of Long Beach for a period of 30 days or less. The tax is collected by the hotel operator and remitted to the City on a monthly basis. The current TOT rate is twelve percent; six percent is deposited in the city's General Fund; and six percent is for revenue purposes needed for the City's Special Advertising and Promotion Fund. (Note that in the Downtown Redevelopment Area, the TOT is also 12%, with half going to the General Fund and half collected by the Redevelopment Agency under its own ordinance.) In fiscal years 2006 and 2007, the City collected \$16.5 million and \$18.3 million in TOT revenues, respectively.

Under Long Beach Municipal Code (LBMC) 3.64.010, an individual who occupies a hotel room for 31 consecutive days is considered a "non-transient" and exempt from TOT. If the hotel operator has already collected TOT for the first 30 days, and the individual subsequently completes 31 consecutive days of occupancy, the amount is either refunded to the non-transient or credited to his or her account (LBMC 3.64.055).

We have conducted a review of the City's Transient Occupancy Tax (TOT). The objective of our review was to find ways to generate additional TOT revenue for the City. In order to determine how other cities treat certain TOT revenues, we surveyed the top ten cities in California by population and eight surrounding cities. The purpose of our surveys was to determine whether these cities refund TOT revenue for the first 30 days of a non-transient's stay. We found that ten of the 18 cities surveyed, or 56%, do not refund TOT revenue for the first 30 days of a non-transient's stay.

As a result of the surveys, additional procedures were performed to determine the amount of revenue the City would have received if TOT revenues collected from non-transients in calendar years 2006 and 2007 were retained. Based on our review, the City would have received an estimated \$187,000 in 2006 and an estimated \$212,000 in 2007 if TOT were not refunded to non-transients for the first 30 days.

Objective, Scope and Methodology

The objective of our review was to find ways to generate additional TOT revenue for the City. The scope of our audit included surveying the top ten cities in California by population and eight surrounding cities, and reviewing non-transient exemptions claimed on the TOT remittance reports for calendar years 2006 and 2007.

The following procedures were performed during our review:

- Surveyed the top ten cities in California by population and eight surrounding cities to determine whether these cities refund TOT revenue for the first 30 days of a non-transient's stay;
- Obtained the monthly TOT remittance reports submitted by Long Beach hotels for calendar years 2006 and 2007;
- Prepared a schedule of non-transient rental receipts received from lines A-2 and A-3 of the 2006 TOT remittance reports and performed the following procedures:
 - Extracted only rental receipts from occupants who qualified as non-transients in 2006 and excluded rental receipts for the following:
 - Guests who did not complete 31 consecutive days of stay;
 - No check-in and/or check-out dates listed;
 - No breakdown of rental receipts by non-transients; and
 - Government employees who were incorrectly listed under lines A-2 or A-3;
 - Estimated the amount refunded to non-transients by taking the rental receipts for the first 30 days of occupancy and multiplying that amount by the TOT rate of 12%;
 - Determined the refund percentage rate for 2006 by dividing the total amount refunded to non-transients by the total amount of rental receipts received from non-transients in 2006;
- Scheduled rental receipts received from non-transients on lines A-2 and A-3 of the 2007 TOT remittance reports; and
- Estimated the amount refunded to non-transients in 2007 by multiplying the refund percentage rate for 2006 by the total amount of rental receipts received from non-transients in 2007.

Background

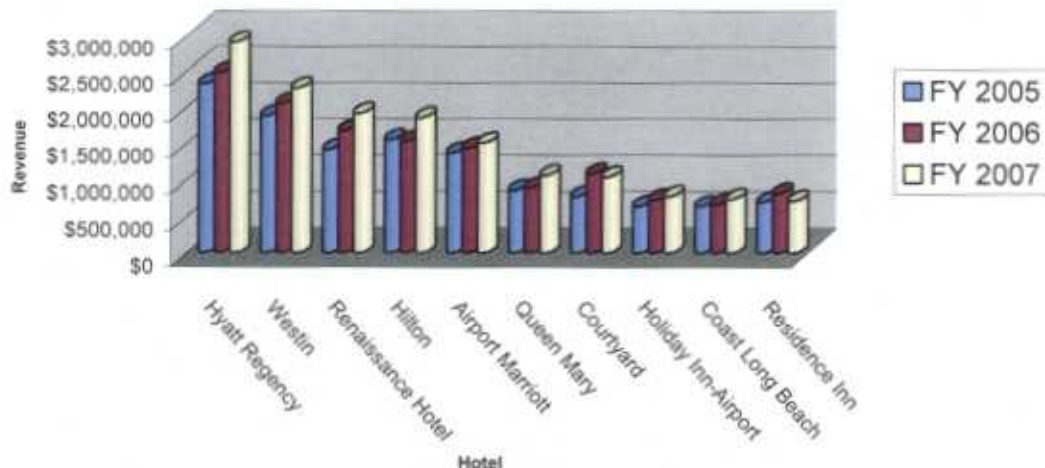
Long Beach Municipal Code (LBMC) 3.64 authorizes the City to levy Transient Occupancy Tax (TOT) on individuals who occupy a hotel room in Long Beach for a period of 30 days or less. The tax is collected by the hotel operator and remitted to the City on a monthly basis. The current TOT rate is 12%; six percent is deposited in the city's General Fund; and six percent is for revenue purposes needed for the City's Special Advertising and Promotion Fund. (Note that in the Downtown Redevelopment Area, the TOT is also 12%, with half going to the General Fund and half collected by the Redevelopment Agency under its own ordinance.) TOT revenues for the past three fiscal years (FY) are shown below:

Fiscal Year	TOT Revenues
2005	\$15,527,753
2006	\$16,547,472
2007	\$18,309,429
Total	\$50,384,654

Under the Municipal Code, an individual who occupies a hotel room for 31 consecutive days is considered a "non-transient" and exempt from TOT. If the hotel operator has already collected TOT for the first 30 days, and the individual subsequently completes 31 consecutive days of occupancy, the amount is either refunded to the non-transient or credited to his or her account (LBMC 3.64.055).

In FY 2007, there were 110 hotels in the City of Long Beach. The ten largest hotels in the City generated approximately 81% of the total TOT revenues in FY 2007. Activity levels for the majority of these hotels have steadily increased for the past three fiscal years. The following graph illustrates the TOT revenues received from the ten largest hotels for the past three fiscal years:

TOT Revenues from Top 10 Hotels



Results

Additional TOT Revenue Can Be Generated

Based on the surveys we conducted of the top ten cities in California by population and the eight surrounding cities, we found that 56% of all cities surveyed do not refund TOT revenue for the first 30 days of a non-transient's stay. The surveys can be found in Appendix A and B of this report.

As a result of our surveys, our office performed additional procedures to determine how much revenue the City would have received if TOT were retained from non-transients in calendar years 2006 and 2007. Our findings are as follows:

Calendar Year	Estimated TOT Revenues From Non-Transients
2006	\$187,000
2007	212,000
Total	<u>\$399,000</u>

As shown above, the City would have received an estimated \$187,000 and \$212,000 in additional revenues for calendar years 2006 and 2007, respectively, if TOT were not refunded to non-transients.

Recommendation for the City

Amend Long Beach Municipal Code Section 3.64.055 to allow the City to retain the TOT collected for the first 30 days of a non-transient's stay. Additionally, propose to the Redevelopment Agency that it consider amending the Agency's TOT ordinance to be consistent with the City's approach.

APPENDIX A
TRANSIENT OCCUPANCY TAX SURVEY
SURVEY OF THE 10 LARGEST CALIFORNIA CITIES (By population)
SURVEY DATE: FEBRUARY 2008

	Los Angeles	San Diego	San Jose	San Francisco	Long Beach	Fresno	Sacramento	Oakland	Santa Ana	Anaheim
1) FY 2007 TOT Revenue	\$147.9M	\$153.5M	\$22.5M	\$143.1M	\$19.3M	\$10.8M	\$20.59M	\$12.3M	\$7.44M	\$83.9M
2) TOT Percentage Rate	14%	10.5%	10%	14%	12%	12%	12%	11%	11%	15%
3) TOT Revenue Allocation to General Fund	92%	52.3%	40%	Allocation varies to 11 different funds yearly.	50%	100%	17%	100%	100%	100%
4) Does the city refund TOT revenue if a person occupies a room longer than 30 days? (Yes/No)	No	Yes	Yes	No	Yes	No	No	Yes	No	No
5 a) Does your city receive TOT revenue for comped rooms? (Yes/No)	Not sure	No	Yes (2)	No	No	No	No	No	No	No
5 b) If yes, how much?	N/A (1)	No	FY 06-07 approx \$100K.	N/A	N/A	N/A	N/A	N/A	N/A	N/A
6 a) Are there any other fees charged to the hotels aside from TOT? (Yes/No)	Yes	Yes	Yes	No	Yes	No	No	No	No	No
6 b) If yes, what are they?	Parking Occupancy Tax	2% Tourism Marketing District based on the daily rent for hotels with more than 70 rooms.	HBID - levied to hotels w/90 rooms or more; based on location. PBID - levied based on location; all downtown properties.	N/A	FB (BIA) - levied to hotels with 3+ rooms or more at 3% of gross receipts.	N/A	N/A	N/A	N/A	N/A
7) City contact	Brian Dolan Tax Auditor II brian.dolan@lacity.org	Noeman Arroyo TOT Acctg Clerk nvarroyo@sandiego.gov 619-236-6647 Bert Salanida Sr. Mgmt Analyst 619-236-6933 msalanida@sandiego.gov	Huey Dang huey.dang@sanjose.ca.gov 408-535-7008	Susana Chung susana.chung@sfgov.org Dept of Treasury 415-554-4400	Jeanette Montoya Customer Service Supervisor Business License Division 562-570-5599	Rick Kuffel rick.kuffel@ci.fresno.ca.us 559-621-6876	Walker Black Senior Mgmt Analyst wblack@cityofsacramento.org 916-808-8500	Anna Lawrence Revenue Operations Supervisor Business Tax Division 510-235-7478 adlawrence@oaklandnet.com	Ruben Jimenez Customer Service Representative Treasury Tax & Licensing 714-547-5454	Blaze Bruni Budget Manager Budget Division 714-765-5254 Silvia Frias Bus License 714-765-5801 sbrias@anaheim.net
Footnotes:	(1) Not aware of TOT for comped rooms. (2) Hotel employees exempt from fee. TOT fee is based on the avg daily rate.									

APPENDIX B
TRANSIENT OCCUPANCY TAX SURVEY
SURVEY OF SURROUNDING CITIES
SURVEY DATE: FEBRUARY 2008

Questions	Costa Mesa	El Segundo	Huntington Beach	Laguna Beach	Newport Beach	Redondo Beach	Santa Monica	Torrance	Long Beach
1) FY 2007 TOT Revenue	\$6.0M	\$4.4M	\$6.5M	\$8.2M	\$12.1M	\$3.7M	\$32.3M	\$7.0M	\$18.3M
2) TOT Percentage Rate	6%	8%	10%	10%	12%	12%	14%	11%	12%
3) TOT Revenue Allocation to General Fund	100%	100%	100%	80%	83%	92%	100%	100%	50%
4) Does the city refund TOT revenue if a person occupies a room longer than 30 days? (Yes/No)	Yes	Yes	Yes	No	No	No	Yes	No	Yes
5 a) Does your city receive TOT revenue for camped rooms? (Yes/No)	No	No	Yes	No	Yes	Yes	No	No	No
5 b) If yes, how much?	N/A	N/A	Amount unknown	N/A	Amount unknown	Amount unknown	N/A	N/A	N/A
6 a) Are there any other fees charged to the hotels aside from TOT? (Yes/No)	Yes	No	Yes	Yes	No	Yes	Yes	Yes	Yes
6 b) If yes, what are they?	2% Business Improvement Assessment	N/A	1% Business Improvement District	2% Business Improvement District	N/A	1% Business Improvement District	Parking Facility Tax	Special Assessment District	LEI (Lodging Excise Invoice) - levied to hotels with 21 rooms or more at 2% of gross receipts
7) City contact	Judy Vickers Revenue Supervisor jvickers@ci.costamesa.ca.us 714-754-9234	Marcia Marion mmarion@elsegundo.org 310-524-2515	Jim Slobojan Fiscal Services Manager - Finance 714-960-5825 jslobojan@surfcity-hb.org	Magdalena Litvik Accountant 949-497-0316 mlitvik@lagunabeachcity.net	Lourdes Cantore Revenue Auditor lcantore@city.newport-beach.ca.us	Raouf Moussa Senior Auditor 310-372-1171 x2603 raouf.moussa@redondo.org	Karen Kuchel 310-458-8741 karen.kuchel@smgov.net	Jim Olds Senior Auditor 310-781-7674 jolds@tor.net.com	Jeanine Montoya Customer Service Supervisor Business License Division 562-570-6598