

Budget Engagement Commission

City of Arts & Innovation

TO: HONORABLE COMMISSIONERS

DATE: AUGUST 31, 2017

FROM: FINANCE DEPARTMENT

WARD: ALL

SUBJECT: OVERVIEW OF CITY TRANSIENT OCCUPANCY TAX (TOT) REVENUE

ISSUE:

Receive an overview of the City's Transient Occupancy Tax (TOT) revenue.

RECOMMENDATIONS:

That the Budget Engagement Commission receive an overview of the City's TOT revenue.

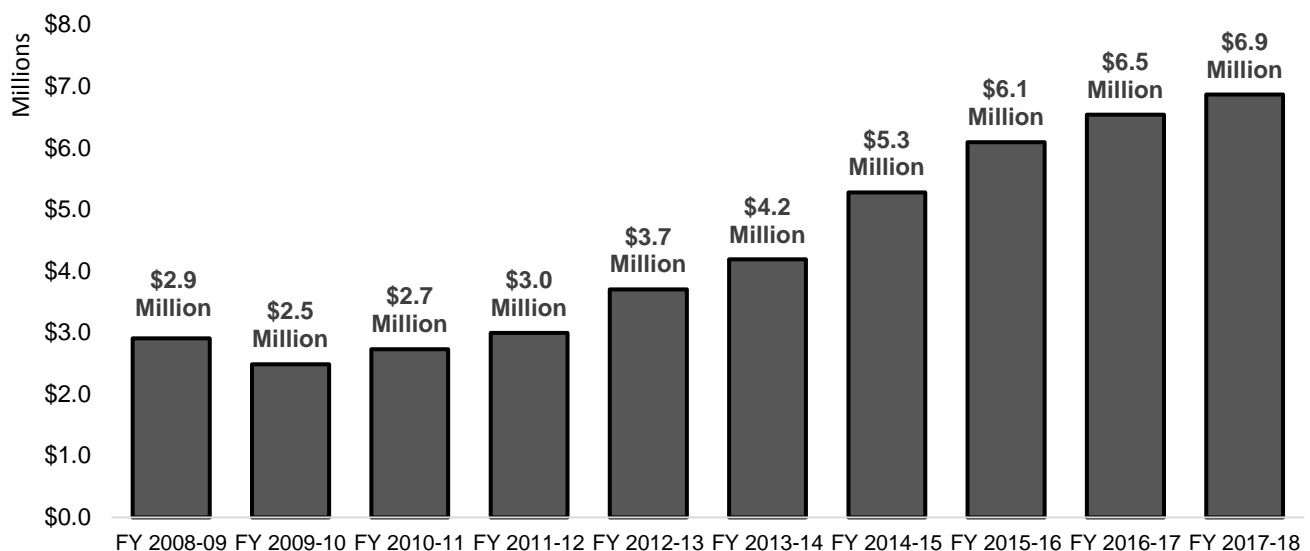
BACKGROUND:

Riverside Municipal Code Chapter 5.32 levies TOT on the daily use of hotel room in the City. Guests of businesses subject to this tax must pay TOT for the portion of their stay that does not exceed 30 days. Hotel operators must remit any TOT related collections to the City on a monthly basis. The current TOT rate is 13%.

DISCUSSION:

Revenue History

Over the last three fiscal years, TOT revenue has increased \$1.3 million (24%) with \$6.5 million expected to be collected for Fiscal Year (FY) 2016-17. Below is a summary of TOT revenue for the past ten years, including FY 2017/18 estimates:



Top 7 Revenue Sources:

Legally, the City cannot provide revenue generated by hotel. Below are the top 7 TOT revenue generating operations in the City during FY 2016/17 in alphabetical order:

Comfort Inn	Hampton Inn & Suites	Mission Inn	Riverside Marriott
Courtyard by Marriot	Hyatt Place	Motel 6 La Sierra	

Impacts on Future Revenue Projections:**Future Hotels**

There has been significant investment into the development of Downtown Riverside. In the near future, groundbreaking for a new Hampton Inn and Hotel Indigo is expected to take place. The addition of these hotels will likely increase the City's TOT revenues.

Entertainment

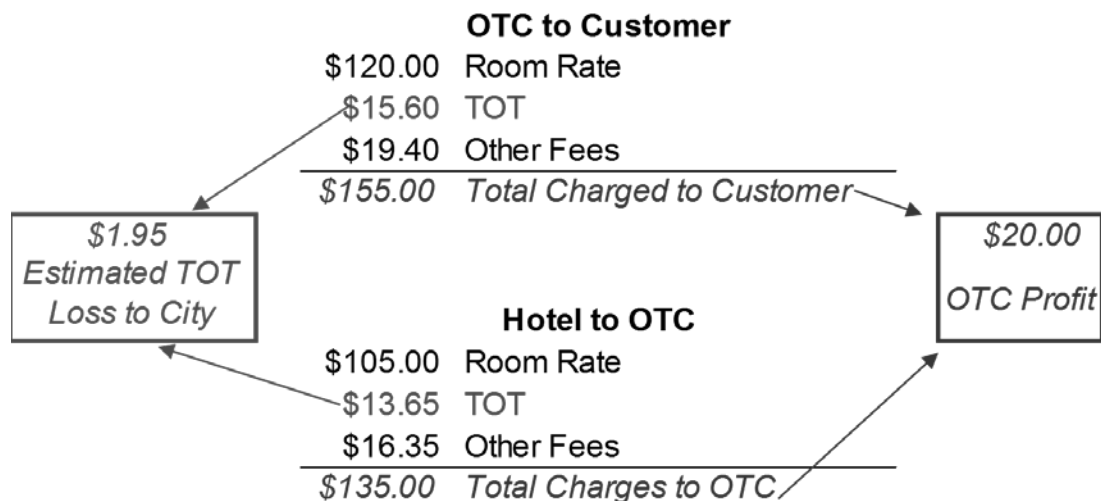
Over the last decade, the City has experienced significant growth in development. Recently planned developments such as the Cheech Marin Chicano Art Center (The Cheech) and the Brickwood promise to attract visitors to an expanding variety of City entertainment. An increase in visitors is expected to translate into an increase in hotel usage which has a positive impact on TOT revenue. It is important to note that the full impact of this development on TOT revenue will not be known for at least 3-5 years following the completion of planned development projects.

Economy

Any significant changes to the economy may also have an impact on future TOT revenue projections. During good economic times, consumers tend to spend more on entertainment which would include hotel rentals that are subject to TOT. Any downturn in the economy is likely to have a negative effect on this activity and TOT revenue associated with it.

Online Hotel Bookings

Recently, increased use of online travel companies (OTC) has led to disputes with local governments over the amount of rental fees that should be subject to TOT. OTCs operate under several business models. The "merchant model" is at the heart of the dispute. Under the merchant model, the OTC charges the consumer a retail price plus fees and taxes based on the retail amount. The hotel charges the OTC a wholesale price plus fees and taxes based on the wholesale amount. The OTC makes a profit on the difference between the retail and wholesale prices. The hotel remits TOT to the City based on the wholesale price charged to OTC. The diagram on the next page demonstrates the effect of the OTC merchant model:



Local governments contend it should be the full retail rate paid by the consumer while OTCs maintain it should be the wholesale rate it remits to the hotel. In the case of City of San Diego v. Priceline.com the courts maintained that while it agreed TOT should be based on the higher amount, online travel companies are not obligated to pay. TOT regulations define the operators that are subject to the tax and online travel companies typically do not fit the definition. In December 2016, the California Supreme Court upheld the ruling under appeal.

Based on information available regarding OTC usage, it is estimated that the City does not collect between \$100,000 and \$400,000 in TOT revenue annually for taxes based on wholesale rates instead of retail rates. The court decision has not resulted in a decrease in TOT revenue for the City because taxes based on retail rates charged by OTCs was not collected prior to the lawsuit. Additionally, the potential impact would vary over time based on the economy, number of hotels, and increased or decreased usage of OTCs by each applicable entity.

FISCAL IMPACT:

There is no fiscal impact associated with this report.

Prepared by:	Karen Johnson, Principal Management Analyst
Approved as to availability of funds:	Adam Raymond, Acting Chief Financial Officer / City Treasurer
Approved by:	Marianna Marysheva, Assistant City Manager