

City of Hesperia

STAFF REPORT



DATE: January 07, 2020
TO: Mayor and City Council Members
FROM: Nils Bentsen, City Manager
BY: Casey Brooksher, Director of Finance
SUBJECT: Receive and File the Transient Occupancy Tax Audit Results

RECOMMENDED ACTION

It is recommended that the City Council receive and file the attached Transient Occupancy Tax (TOT) Audit results for the Calendar Year (CY) 2016.

BACKGROUND

The City collects a TOT tax, commonly referred to as a “bed tax” of 10% on occupants staying in rooms of a hotel, motel, inn, and other lodging facility. The City currently has ten (10) lodging operators. It is a good practice to periodically conduct an independent “audit” of the records and reporting of the lodging operators to determine if they are in compliance, as well as to ensure that the City is receiving all TOT related revenue to which it is entitled under the City Ordinance.

During the June 13, 2017 Council Meeting, Council requested that staff bring forward an item for an independent audit of TOT lodging operators, as the most recent TOT audit was performed in FY 2007-08. On August 15, 2017, the City approved an amendment to the agreement with White Nelson Diehl Evans (WNDE) LLP to perform the audit.

ISSUES/ANALYSIS

WNDE conducted a field audit on nine (9) of the ten (10) hotel/motel establishments. The tenth establishment, formally America’s Best Value Inn, which is located at 12033 Oakwood Avenue was in the process of being sold during the time of the field audit. WNDE reviewed calendar year 2016 TOT tax returns (TOT revenue) to ensure that the hotel/motel remitted the correct amount to the City and was able to determine the following:

- How “gross rents” and “uncollected rents” were accounted for and reported to the City?
- What procedures were in place to identify transient and non-transient guests?
- How exemptions, including complimentary rooms, were documented and reported to the City?
- How the lodging operators handled reservations and payments done online through a third party, such as Expedia.com, and how the transient occupancy tax was collected and reported to the City for these transactions?

Based on the CY 2016 sampling, the auditors determined that the combined underpayment of TOT was \$22,934. Compared to the FY 2015-16 TOT revenue of \$1.1 million, the underpayment represented 2% of the taxes received by the City. Further, Motel 6, Springhill

Suites, and Holiday Inn Express remitted payments for the shortages totaling \$3,303. The following table notates the auditor's findings for each establishment.

Hotel/Motel	Late Reporting (Lost Penalties & Interest)	Payment Errors	Undocumented Exemptions	Total Errors Of Payment
Econolodge	\$ (5,964)	\$ (225)	\$ (241)	\$ (6,430)
Motel 6	(87)	(816)	N/A	(903)
La Quinta	(5,793)	410	N/A	(5,383)
Courtyard By Marriot	N/A	(872)	N/A	(872)
Springhill Suites	N/A	(184)	N/A	(184)
Holiday Inn Express	N/A	(1,580)	(636)	(2,216)
Hesperia Inn	(722)	(3,558)	N/A	(4,280)
Day & Night Inn	(2,561)	None	(270)	(2,831)
Maple Motel	N/A	1,082	(917)	165
Totals	\$ (15,127)	\$ (5,743)	\$ (2,064)	\$ (22,934)

Based on the auditor's findings and that underpayment is approximately 2% or \$22,934 of the total FY 2015-16 TOT revenue of \$1.1 million, staff is recommending that the City Council receive and file the report.

FISCAL IMPACT

There is no fiscal impact associated with receiving and filing of the TOT Audit Report. It should be noted that three establishments, Motel 6, Springhill Suites, and Holiday Inn Express all remitted payments to the City for deficiencies identified in the CY 2016 audit. The total revenue from the three establishments was \$3,303.

ALTERNATIVE(S)

1. Receive and file TOT audit report.
2. Provide alternative direction.

ATTACHMENT(S)

1. Audit Report – Spring Hill Suites
2. Motel 6 (Currently called Motel 6 West Main St/I-15)
3. Holiday Inn Express
4. Courtyard by Marriot
5. La Quinta Inn & Suites
6. Hesperia Inn
7. Econolodge
8. Day & Nite Inn
9. Maple Motel (Currently called Motel 6 East)