2023 TOT Audit Update

2023 TOT Audit

- HdL audited 5 hotels
  - Completed 4 audits, still working on 5th
- One hotel in 100% compliance
- Three hotels with audit findings
  - Untaxed charges such as cleaning fees, cancellation fees, compensated rooms, etc.
  - Unconfirmed exempted rooms
- Summary of findings:

Property	Finding	TOT	Penalties	Interest	Total
Hotel 1	Untaxed guest charges	6,448	1,290	2,206	9,944
Hotel 2	Untaxed guest charges	14,377	2,875	4,458	21,710
Hotel 3	Untaxed guest charges, exemptions, comp rooms	10,678	2,136	4,324	17,138
Totals		31,503	6,301	10,988	48,792

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- HdL provided 3 options for consideration
  1. Require hotels to provide all requested documents to confirm tax-exemptions. Hotels unable to provide all requested documents will have exemptions become taxable rent with uncollected TOT charges, penalties, and interest.
  2. Follow option one but waive penalties and interest.
  3. Allow hotel exemptions to stand during the audit period. Require hotels to use updated forms with a standard checklist as provided by the City beginning with a specified filing period.

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- Fiscal Impact
  - Option 1 would result in additional one-time revenue of $48,792 and estimated on-going annual revenue of $10,000
  - Option 2 would result in in additional one-time revenue of $31,503 and estimated on-going annual revenue of $10,000
  - Option 3 would result in estimated additional on-going annual revenue of $10,000.
- HdL recommends Option 1
- Staff recommends Option 3
  - Use audit as educational, not punitive
  - Hotels did not actually collect TOT

2023 TOT Audit

- Finance Advisory Committee (FAC)
  - Presented to the FAC Jan. 16, 2024
  - FAC concurred with staff's recommendation of Option 3
    - Beginning February 2024
- Hotels
  - Staff advised all 3 hotel operators of tonight's agenda item
  - Operators noted that other agencies in SC County exempt some charges from TOT that Capitola includes

2023 TOT Audit

- Recommended Action:
  - Authorize staff to waive amount due based on audit.
  - Direct staff to work with hotel operators regarding future TOT collections.