

# STAFF REPORT



**SUBJECT:** Hotel Occupancy Taxes (HOT) & Short-Term Rental (STR) Reporting & Collection Services

**DEPARTMENT:** Tourism

**STAFF CONTACT:** Michaela Bierman

## RECOMMENDATION:

Staff is requesting the Tourism Committee to forward the contracts with Avenu Insights for HOT & STR collection services to council with a positive recommendation.

## BACKGROUND:

On December 1, 2020, City Council passed ordinance 2020-O-39 with an effective date of January 1<sup>st</sup>, 2021 defining STR and including them in the definition of 'hotel' requiring STR to collect and submit Hotel Occupancy Taxes to the City. Early on, the City pursued contracts with AirBnB and VRBO to collect the taxes on behalf of the lodging establishments; however, they chose not to enter into contracts and only collect State Occupancy Taxes.

The City has identified 16 properties within our boundaries and has sent reporting packets to the 14 owners on file. As of the September reporting period, the City currently has 7 lodging establishments reporting. The discovery and education of STRs is labor-intensive. In this process, it has become clear that the STR owners are confused due to AirBnB and VRBO collecting the State Occupancy Taxes, but not the local portion. Apparently, many owners are led to believe that the local portion is already being collected.

Avenu Insights provides discovery, online reporting and payment, education, and auditing services for STR as well as standard HOT lodging establishments. Avenu Insights estimates roughly 31 STR properties in our boundaries, with an annual expected tax revenue of \$13,000. Avenu Insights scrubs over 80 websites and documents the existence of rental advertisements for STRs to assist in the collection of Occupancy Taxes.

## FISCAL IMPACT SUMMARY:

The cost for the initial set-up for Avenu Insights is a one-time \$5,000 for standard HOT & STR establishments. This includes the online reporting and payment portal. The annual cost for STR online portal, discovery and education is a minimum of \$15,000 (up to about 60 properties), and the annual cost for standard HOT establishment online portal is \$3,000 (\$250 for the current 12 standard establishments). The total annual cost for year 1 is \$23,000; year 2 & 3 of the contract, cost will be \$18,000 each.

The STR program does include an auditing requirement, which costs 45% of the taxes recovered. The standard HOT establishment program has an option for auditing services at \$2,000 per audit. However, we are not recommending an audit of HOT establishments this fiscal year.

The STR taxes submitted for September were \$730. Extrapolating this information to 20 properties, this would result in approximately \$32,000 in annual tax revenue which would result in an additional \$20,000 annual tax collected. This would cover the setup and STR program cost for year 1, leaving the \$3,000 for the standard properties to be paid from fund balance. Year 2 and 3 of the contract is fully covered.

## ALTERNATIVES

Not approve the contract and possibly fail to collect STR Occupancy Taxes, resulting in a potential loss of revenue.