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# Transient Occupancy Tax

Transient Occupancy Tax Subcommittee: **Rebecca Trahan, Ralph Taboada, and Bob Juneman**  
Finance and Pension Committee (FiPAC)  
Associated Staff: Michelle Manu  
January 10, 2018

## CITY COUNCIL'S REQUEST OF FIPAC

- On June 6, 2017, Council directed Staff to work with FiPAC on the review of Citywide user fees and costs, including Transient Occupancy Tax ("TOT").
- Council seeks a FiPAC recommendation of whether or not TOT should be increased, and if so, to what percentage.

## FIPAC'S REVIEW AND CONSIDERATIONS

- Consider and recommend options to bring the current TOT tax amount into today's business climate.
- Consider an increase while recommending options to continue to maintain the City's visitor-friendly atmosphere.
- Consider and recommend possible future fees on short-term lodging businesses ("Airbnb"-like) operating businesses within City limits.
- Consider and recommend reviewing the business climate and City's TOT every two (2) years, like most of its neighboring cities.
- Consider and recommend a phased-in change (escalated increases over a period of years).
- Consider TOT audit requirements.

## HISTORICAL INFORMATION

- The City's first TOT went into effect 40 years ago, in 1978, at 6.0%.
- TOT rate increases were presented to Council in June 2000 and February 2004. No action was taken.
- In 2010, Council approved a ballot measure to increase TOT from 6.0% to 8.0%.
- In November 2010, Measure L was approved by voters, increasing TOT (52% / 48%).
- A "Business Improvement Assessment" (BIA) fee was first implemented in 1995 at 1.0%.
- BIA fee increased to 2.0% in year 2000 and 3% in 2010.
  - Fee was to be used for promotional and marketing purposes.

## BACKGROUND AND CURRENT STATUS

- TOT is a significant and important revenue source for Costa Mesa.
- For this year, and the past several years, TOT has been the fourth largest source of revenue:
  - FY 16/17 actuals of \$8,924,854 and 7.3% of the General Fund revenue.
  - FY 17/18 budgeted at \$9,250,000 and 7.4% of General Fund revenue.
- At 8.0%, the City's TOT is the lowest in Orange County - like La Habra, Stanton, Westminster, and Mission Viejo (see [Attachment A](#)).
- Three cities in OC have no TOT: La Habra, Rancho Santa Margarita, and Villa Park.

## BACKGROUND AND CURRENT STATUS

(continued)

- The TOT of adjacent (and competing) cities: Huntington Beach, Newport Beach and Irvine have a 10.0% rate (see Note 1).
- Costa Mesa currently has 29 hotels and motels (see [Attachment B](#)).
- Eleven are members of Travel Costa Mesa, a non-profit marketer and promoter of the City ([travelcostamesa.com](http://travelcostamesa.com)) (see [Attachment C](#)).

\*Note 1 – Irvine has an 8.0% TOT and a mandatory 2.0% 'Hotel District' fee for a total of 10.0%.

# BACKGROUND AND CURRENT STATUS

(continued)

- In addition to the 8.0% TOT, guests that stay at these eleven hotel/motel members are billed the Business Improvement Assessment (BIA) fee of 3.0%. (see Note 2)
- The City collects and transfers 2.99% (of the 3.0%) to Travel Costa Mesa.
  - Funds are used to promote and market the eleven hotels and the City.

\*Note 2 – The City allows exemptions, such as long-term guests, government or airline employees, and foreign dignitaries.

## TOT AUDITS

- The Finance Department audits, or has a consultant audit, every 2-3 years.
- The FiPAC TOT Subcommittee received information from two prior audits.
  - One audit was conducted by staff and the other by an outside auditor.
  - No indication of any corrective action was taken from the results of the audits.



# SHORT-TERM LODGING

- The City does not:
  - Have an ordinance dealing with Short-Term Rentals (STR).
  - Impose TOT on STR.
  - Impose business license taxes on STR.
  - Maintain records or monitor how many STR businesses exist in the City.
- Huntington Beach does not allow STR (and fines for operating within HB).
- Newport Beach does allow STR but only in certain residential districts, and requires a business license and special permit.

## TOT SUB-COMMITTEE'S RECOMMENDATIONS

- After review, discussion and research of economic and public trends, it is recommended that the current TOT tax rate be brought into today's business climate.
- A TOT increase from 8.0% to 10.0% is recommend as it:
  - Continues to maintain the City's visitor-friendly atmosphere.
  - Was eight years since the last review.
  - Is equal to the predominant rate used by other OC cities (average is 10.8%).
  - Does not burden Costa Mesa residents.
  - Is competitive with other OC cities, and the same as adjacent cities.
  - Recognizes the increased cost of City services.

## TOT SUB-COMMITTEE'S RECOMMENDATIONS<sub>(continued)</sub>

- AUDITS - The Subcommittee recommends the Finance Department review the existing audit policy and procedures to include, but not limited to:
  - Audit scope – all hotels and receipts or samples, top half, etc.
  - Proper use of TOT tax exemptions.
  - Review and increase audit intervals.
  - Use of in-house or outside vendor.
  - Develop a process for assessing monies - owed or issuing refunds.

## TOT SUB-COMMITTEE'S RECOMMENDATIONS (continued)

- It is recommended that the City review the business climate and the City's TOT every two (2) years, as do most of its neighboring and competing cities.
- It is recommended that the City prepare this matter be presented to the voters for their decision in June 2018.
- Short-Term Rentals - Measure L's approval of 8.0% rate in 2010, may also apply to Short-Term Rentals (STR). This issue is beyond the Subcommittee's scope, nor do we have the expertise to fully address it. However, the Subcommittee recommends that Staff and Council address the overall issue of STR. Many questions surround this growing industry.

# TOT SUB-COMMITTEE'S RECOMMENDATIONS<sub>(continued)</sub>

## Questions Surrounding Short-Term Rentals

- Should Costa Mesa regulate this industry within its city limits?
- If yes, how does the City regulate this industry?
- What are the legal ramifications of regulating STR?
- How many STR units exist in the City?
- How many STR websites include Costa Mesa units for rent?
- Should the City impose business license taxes on STR?
- Should STR bill and remit TOT?
- What burden does remitting TOT taxes place on STR?
- How to implement an audit program for STR TOT remittances?
- What annual revenue can be assumed from STR?
- Is it worth the effort and cost; does it make sense economically?
- Regardless of economics, does the City have the responsibility to regulate this industry?

# ORANGE COUNTY TOT

## ATTACHMENT A

CITY	TOT	REVENUE	POPULATION
Anaheim	15.0%	149,832,928	346,997
Garden Grove	14.5%	23,500,000	175,078
San Clemente (11/08/16 - 10%)	13.0%	2,560,660	63,522
Buena Park	12.0%	83,105	83,105
Laguna Beach	12.0%	6,300,000	23,341
Laguna Hills (11/08/16 - 10%)	12.0%	2,000,000	31,017
Seal Beach	12.0%	1,550,000	24,168
Santa Ana	11.0%	9,430,000	342,930
Costa Mesa (since 2010)	8.0%+3.0%	8,531,000	112,784
Aliso Viejo	10.0%	1,130,000	50,231
Brea	10.0%	1,605,000	41,508
Cypress	10.0%	2,350,000	49,240
Dana Point	10.0%	11,600,000	34,116
Fountain Valley	10.0%	1,428,000	55,313
Fullerton	10.0%	2,600,000	139,677
Huntington Beach	10.0%	10,504,660	200,809
Irvine	8.0%+2.0%	14,703,000	248,531
Laguna Woods	10.0%	428,229	16,415
Lake Forest	10.0%	3,550,000	80,148
Newport Beach	10.0%	22,001,307	87,266
Orange	10.0%	5,253,000	139,812
Placentia	10.0%	920,000	52,397
San Juan Capistrano	10.0%	839,130	34,593
Tustin	10.0%	1,250,000	75,540
Yorba Linda	10.0%	450,000	64,234
La Palma	8.0%	800,000	15,842
Laguna Niguel	8.0%	32,381	64,825
Los Alamitos	8.0%	160,000	11,658
Mission Viejo	8.0%	800,000	96,348
Stanton	8.0%	390,000	38,186
Westminster	8.0%	750,000	87,701
La Habra	None	\$0.00	62,066
Rancho Santa Margarita	None	\$0.00	49,359
Villa Park	None	\$0.00	5,812

# COSTA MESA HOTELS AND MOTELS

## ATTACHMENT B

Ali Baba Motel  
Best Western Plus NM Inn  
Crowne Plaza CM OC  
Harbor Bay Motel  
La Quinta Inn #541  
Motel 6 NB  
Ramada LTD  
Sandpiper Motel  
Tahiti Inn Motel  
Westin South Coast Plaza

Ana Mesa Inn  
BLVD Hotel  
Days Inn  
Hilton OC/CM  
Marriott Suites CM  
New Harbor Inn  
Regency Inn  
Star Inn  
Travelodge OC Airport  
Wyndham (Ave of the Stars)

Ayres  
Cozy Inn  
Hacienda Inn - Travelodge  
Holiday Inn Express  
Motel 6 #1347  
Newport Bay Inn  
Residence Inn – CM  
Super 8 Motel  
Vagabond Inns

## TRAVEL COSTA MESA'S 4-DIAMOND HOTELS

### ATTACHMENT C

Hotel -	Address -	Travel Costa Mesa Webpage -
Avenue of the Arts, A Tribute Portfolio Hotel	3350 Avenue of the Arts	<a href="https://www.travelcostamesa.com/stay/costa-mesa-hotels/avenue-of-the-arts/">https://www.travelcostamesa.com/stay/costa-mesa-hotels/avenue-of-the-arts/</a>
Ayres Hotel & Suites	325 Bristol Street	<a href="https://www.travelcostamesa.com/stay/costa-mesa-hotels/ayres-hotel-and-suites/">https://www.travelcostamesa.com/stay/costa-mesa-hotels/ayres-hotel-and-suites/</a>
Best Western Plus	2642 Newport Boulevard	<a href="https://www.travelcostamesa.com/stay/costa-mesa-hotels/best-western-newport-mesa/">https://www.travelcostamesa.com/stay/costa-mesa-hotels/best-western-newport-mesa/</a>
BLVD Hotel	2430 Newport Boulevard	<a href="https://www.travelcostamesa.com/stay/costa-mesa-hotels/blvd-hotel/">https://www.travelcostamesa.com/stay/costa-mesa-hotels/blvd-hotel/</a>
Crowne Plaza	3131 Bristol Street	<a href="https://www.travelcostamesa.com/stay/costa-mesa-hotels/crowne-plaza-costa-mesa-orange-county/">https://www.travelcostamesa.com/stay/costa-mesa-hotels/crowne-plaza-costa-mesa-orange-county/</a>
Hilton	3050 Bristol Street	<a href="https://www.travelcostamesa.com/stay/costa-mesa-hotels/hilton-orange-county-costa-mesa/">https://www.travelcostamesa.com/stay/costa-mesa-hotels/hilton-orange-county-costa-mesa/</a>
Holiday Inn Express & Suites	2070 Newport Boulevard	<a href="https://www.travelcostamesa.com/stay/costa-mesa-hotels/holiday-inn-and-suites/">https://www.travelcostamesa.com/stay/costa-mesa-hotels/holiday-inn-and-suites/</a>
Marriott	500 Anton Boulevard	<a href="https://www.travelcostamesa.com/stay/costa-mesa-hotels/costa-mesa-marriott/">https://www.travelcostamesa.com/stay/costa-mesa-hotels/costa-mesa-marriott/</a>
Ramada	1680 Superior Avenue	<a href="https://www.travelcostamesa.com/stay/costa-mesa-hotels/ramada-costa-mesa/">https://www.travelcostamesa.com/stay/costa-mesa-hotels/ramada-costa-mesa/</a>
Residence Inn by Marriott	881 W. Baker Street	<a href="https://www.travelcostamesa.com/stay/costa-mesa-hotels/costa-mesa-residence-inn-by-marriott/">https://www.travelcostamesa.com/stay/costa-mesa-hotels/costa-mesa-residence-inn-by-marriott/</a>
The Westin South Coast Plaza	606 Anton Boulevard	<a href="https://www.travelcostamesa.com/stay/costa-mesa-hotels/the-westin-south-coast-plaza/">https://www.travelcostamesa.com/stay/costa-mesa-hotels/the-westin-south-coast-plaza/</a>