



Legislation Text

File #: 20-0971, **Version:** 1

Chief Administrative Office recommending the Board:

- 1) Receive an update on Transient Occupancy Tax (TOT) Revenues as a result of the COVID-19 pandemic;
- 2) Conceptually approve the Fiscal Year (FY) 2020-21 TOT revenues and spending plan, and direct staff to incorporate these recommendations in the adopted budget for FY 2020-21; and
- 3) Approve and authorize the Chief Administrative Officer to sign an Agreement with Greater Sacramento Economic Council for FY 2020-21 in an amount not to exceed \$63,252.

FUNDING: Transient Occupancy Tax.

On June 23, 2019, the Board directed that staff return to the Board on or before July 28, 2020 with a presentation on Transient Occupancy Tax.

The Transient Occupancy Tax (TOT), or Hotel/Motel Occupancy Tax, is imposed on the daily rental price of a room in a lodging facility, including vacation home rentals, when used by visitors staying in the unincorporated portions of El Dorado County for less than 30 days. The County Transient Occupancy Tax Ordinance, Chapter 3.28 of the County Code of Ordinances, establishes that each transient is subject to and shall pay a tax in the amount of ten percent of the rent charged by the operator for occupancy in any facility, except a camping site or a space at a privately owned campground or recreational vehicle park. The allocation of TOT is not related to District boundaries or to where the TOT is generated.

The tax code does not require any specific use of TOT funds. The County's recent practice has been to direct 10% of actual TOT revenue to the Treasurer-Tax Collector budget, which occurs quarterly, in recognition of services provided in the collection of this tax. In addition, at least 51% of TOT revenue has been directed to the Economic Development budget, 5% to fund Veteran's Commission grants to Veteran related activities, and the remaining amount to the General Fund to offset other general, on-going obligations of the County. This was pursuant to:

- 1) Policy 10.1.6.4 of the Economic Development Element of the County's General Plan which specified that, "The majority of transient occupancy tax (TOT) generated revenue shall be directed toward the promotion of tourism, entertainment, business, and leisure travel in El Dorado County."
- 2) Approval on March 19, 2013 by the Board of a recommendation to establish an annual allocation beginning with the Fiscal Year (FY) 2013-14 budget in an amount equal to five percent (5%) of the TOT Revenue collected, for the purpose of funding projects, programs, and services that directly benefit the support and recognition of Veterans in the County of El Dorado.

On December 10, 2019 (Legistar Item #19-1755), the Board approved a General Plan Amendment to remove General Plan Section 10.1.6.4. On the same day, the Board approved a new Budget Policy (Policy B-16, Section II, No. 13), stating the following: "Transient Occupancy Tax revenue shall be directed toward the impact of tourism and economic development, with consideration for support of

tourism and promotion activities within the County and for continued support for grant fund allocations to support Veteran programs within the County" (Legistar Item #19-1818).

In accordance with prior direction, the overall revenue for TOT in the FY 2020-21 recommended budget was \$4,980,000 and distributed as follows:

- General Fund's direct share of TOT revenue: \$4,450,000
- Treasurer-Tax Collector share: \$530,000 (based on estimated FY 2019-20 actuals)
- Veteran's Services (Commission and new Sr. Veteran Service Representative position totaling \$90,513): \$265,739
- Economic Development Budget: \$1,763,692
- Remaining General Fund: \$2,421,082

For the Departments that receive TOT funding, there is no obligation to return unspent TOT funds to the General Fund. Both Economic Development and Treasurer-Tax Collector are General Fund programs, and TOT will always offset the cost of operations in the Treasurer-Tax Collector. By default, any unspent money for Economic Development and the Treasurer-Tax Collector will remain in the General Fund unless the Board takes specific action in a given budget year to allocate those funds to other programs.

Revenues for Transient Occupancy Tax are projected to come in above budget for FY 2019-20, and are currently projected at \$5,376,701. This revenue amount includes AirBnB receipts, which are paid quarterly as a lump sum, through March of 2020, but does not include the months of April through June. The last quarter of FY 2019-20 receipts will be included in revenue for FY 2020-21, which were impacted by COVID19-related closures and travel restrictions. As of the date of this staff report, the payments provided by AirBnB for collected TOT from April through June have not been received; however, based on discussions with AirBnB it is anticipated revenues for the period of April - June 2020 will be approximately 18% less than revenues received during the period of April - June 2019.

Due to several unknown factors that may impact TOT revenue for FY 2020-21, including the potential for additional travel restrictions as a result of COVID-19, staff analyzed three scenarios for budgeting TOT, summarized as follows:

	Cautious	Conservative	Moderate
% Change from Rec'd Budget	-25%	-13%	+5%
Total TOT Revenue	\$3,735,000	\$4,332,600	\$5,229,000
Difference from Rec'd	-\$1,245,000	-\$647,400	+\$249,000

The "moderate" scenario assumes growth of 5%. This scenario assumes that the latent demand for travel increases TOT for the months of July 2020 through March 2021, making up for any losses from April through June 2020. It also takes into account the potential for the collection of back taxes as a result of efforts to identify vacation home rentals that have not been remitting taxes, which may be

substantial. Lastly, this scenario assumes there are no further travel bans as a result of the COVID-19 pandemic. This scenario results in a total TOT revenue figure of \$5,229,000, \$249,000 *more* than the FY 2020-21 Recommended Budget.

The second scenario, Conservative, assumes a 13% reduction due to reduced revenues from March through June 2020, as a result of reduced TOT for one quarter of the Spring “shoulder season”. This scenario is conservative given all factors, but does not assume additional travel restrictions and assumes short term rentals will return to normal usage this summer. This scenario results in a total TOT revenue figure of \$4,332,600, \$647,400 *less* than the FY 2020-21 Recommended Budget.

Staff is recommending the “Cautious” scenario which assumes 25% of TOT revenue is lost over the Fiscal Year due to reduced revenues in the period from March through June 2020. In addition, further restrictions to tourist activities due to COVID-19 virus within FY 2020-21 results in reduced revenues. This scenario is feasible should the County eventually be affected by additional travel restrictions and a delay in identifying Vacation Home Rentals that have not been remitting TOT and/or low amount of recovery of back taxes. This scenario results in a total TOT revenue figure of \$3,735,000; \$1,245,000 *less* than the FY 2020-21 Recommended Budget.

Staff is recommending the following to balance the TOT budget and spending plan:

- 1) TOT revenues are projected to come in approximately \$191,422 above the amount included in the Recommended Budget. Staff is recommending this amount be re-budgeted in the Economic Development Division.
- 2) The Economic Development Division is projecting a year-end fund balance totaling \$765,000. Staff is recommending this one time savings be re-budgeted in the Economic Development Division in FY 2020-21.
- 3) Reduce TOT Revenue provided to the Treasurer/Tax-Collector in the recommended budget by 25%, from \$530,000 to \$373,500, for a total reduction of \$156,500.
- 4) Staff is recommending the Economic Development Division reduce its 2020-21 budget from 25% from their 2019-20 adopted budget, from \$2,249,100 to \$1,675,420. To accomplish this, the 2020-21 Recommended Budget for Economic Development Division was already reduced to \$1,763,692. The additional amount totaling approximately \$88,272 will be achieved by holding one Administrative Assistant position vacant for this fiscal year.
- 5) TOT funding provided to the Veteran’s Commission will be reduced by 25% from \$175,226 in the Recommended Budget to \$131,420, resulting in a savings of \$43,806, keeping in mind the Recommended Budget allocated \$90,513 of the TOT funds provided to the Veteran’s Commission to fund a position in the Veteran’s Affairs Division remains intact.

ALTERNATIVES

The Board could direct staff to utilize different assumptions than those recommended here in drafting the Adopted Budget.

PRIOR BOARD ACTION

Legistar Item #20-0752 - Approval of the FY 2020-21 Recommended Budget

Legistar Item #19-1818 - TOT General Plan Amendment

Legistar Item #20-0742 - GSEC Presentation

OTHER DEPARTMENT / AGENCY INVOLVEMENT

Treasurer Tax Collector, Planning and Building

FINANCIAL IMPACT

There is no direct financial impact for providing direction for revenue assumptions as staff will return to the Board for approval of the Adopted Budget in September.

CLERK OF THE BOARD FOLLOW UP ACTIONS

None

STRATEGIC PLAN COMPONENT

Good Governance

CONTACT

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