

CITY OF SANTA ROSA
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL
FROM: ALAN ALTON, INTERIM CHIEF FINANCIAL OFFICER
FINANCE DEPARTMENT
SUBJECT: SUSPENSION OF LATE FEES AND PENALTIES FOR OVERDUE
TRANSIENT OCCUPANCY TAX AND SANTA ROSA TOURISM
BUSINESS IMPROVEMENT AREA PAYMENTS

AGENDA ACTION: URGENCY ORDINANCE

RECOMMENDATION

It is recommended by the Finance Department and the Planning and Economic Development Department that Council, by urgency ordinance, authorize the City's tax collector to suspend the accrual and collection of late fees and penalties for overdue Transient Occupancy Tax (TOT) and Santa Rosa Tourism Business Improvement Area (SRTBIA) assessments received for stays during April 2020, May 2020 and June 2020, until October 31, 2020.

EXECUTIVE SUMMARY

Governor Newsom issued Executive Order N-33-20 ordering everyone living in the State of California stay home except as needed to maintain continuity of operations of critical infrastructure sectors. The impact of the global pandemic and the resulting response to slow the spread of the disease has greatly impacted the lodging and tourism industries. As such, the City is proposing to suspend the imposition of late fees and penalties for overdue Transient Occupancy Tax and Santa Rosa Tourism Business Improvement Area payments for April through June 2020, until October 31, 2020. While these are pass through charges by lodging to the visitor and do not impact lodging's direct revenue or expenses, it is anticipated this program, modeled after one the City of Healdsburg initiated in April, will assist the businesses with cash flow.

BACKGROUND

The City collects Transient Occupancy Tax (TOT) and two Tourism Business Improvement Area (TBIA) assessments from lodging establishments operating within Santa Rosa city limits. The two TBIA assessments collected are a two percent (2%) Sonoma County TBIA which the City passes directly to the County for Sonoma County Tourism use, and a three percent (3%) Santa Rosa TBIA (SRTBIA) which supports Santa Rosa specific tourism efforts performed by the Santa Rosa Metro Chamber and

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the City's Economic Development Division. The program proposed in the urgency ordinance will suspend late fees and penalties associated only with the Santa Rosa TBIA and will not address the County's TBIA payments.

The tax and assessment are imposed on hotel, motel, and short-term rental customers lodging within City limits. These establishments collect the tax and assessment on behalf of the City and remit payment on a quarterly basis, due at the end of the month following the end of a quarter. Approximately seven establishments pay monthly, under an arrangement with the City's Revenue Division. Late payments are subject to late fees and interest penalties. The late fee is equal to 10% of the TOT amount, and the interest penalty is one-half of one percent per month on the initial tax owed, minus the late fee, until the overdue tax is paid. Similar late fees and interest penalties are in place for the SRTBIA.

Since TOT and SRTBIA are a local tax and assessment, the City Council has the authority to suspend the accrual and collection of late fees and interest penalties. The Council has authority to adopt an urgency ordinance by a five-seventh vote pursuant to Section 8 of the Santa Rosa City Charter and Government Code section 36937(b) if necessary to preserve the public peace, health or safety if such ordinance contains the reasons for its urgency. Given that the financial impact of the COVID-19 pandemic has been immediate and severe and quick action would provide needed flexibility with cash flow and certainty for planning purposes, staff proposes that the Council act by urgency ordinance to provide immediate relief to this especially hard-hit sector.

While the Sonoma County TBIA is remitted to the City along with and generally at the same time as the SRTBIA, the City acts only as a conduit for the County; the City has no authority to waive late fees and interest penalties related to those funds.

PRIOR CITY COUNCIL REVIEW

Not applicable

ANALYSIS

The shelter-in-place order has contributed to a drastic decline in business activity in the City, with the hotel industry hit particularly hard. The City of Healdsburg initiated a program in April to assist the lodging industry in their city by suspending late fees and penalties on overdue TOT payments. By suspending the accrual of late fees and penalties, Santa Rosa would not penalize hotels, motels, and short-term rental properties for their inability to make their TOT/BIA payments in a timely manner. The late fee for overdue payment of the TOT and the SRTBIA is 10% of the tax for the first 30 days late, and an additional 10% penalty for the next 30 days late. In addition,

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overdue payments for TOT and SRTBIA are subject to interest penalties equal to one-half percent per month of the overdue amount, minus the late fee.

The effects of the COVID-19 pandemic on the local economy has left the City with a projected \$20 million General Fund revenue shortfall through the end of FY 20/21. The City is managing its own cash flow challenges, and the lodging industry is encouraged to continue to make their TOT and SRTBIA payments on time; however, the City can offer some flexibility by suspending the accrual and collection of late fees until October 31, 2020, to assist lodging establishments that need extra time to make their TOT and SRTBIA payments. The suspension of late fees and penalties would be for stays during the last quarter of FY 2019/2020 (April, May, and June), and the suspension will apply so long as the underlying TOT and SRTBIA payments are paid to the City in full by October 31, 2020. If the TOT and SRTBIA payments are not made by October 31st, late fees and penalties will apply for the entire period.

TOT funds flow into the City's General Fund. SRTBIA funds are split 70-30 with 70% of the funds distributed to the Santa Rosa Metro Chamber to fund their Visit Santa Rosa and Santa Rosa Welcome Center programs. The remaining 30% of the funds are administered by the City's Economic Development Division for tourism related business and workforce efforts, marketing, and their destination awareness and development program.

FISCAL IMPACT

As this item does not waive the TOT but allows lodging establishments the flexibility to pay overdue without late fees or interest penalties, there is no long-term impact to the General Fund. The lower overall TOT revenue due to the local health order will have a greater overall impact. The four-year average of annual TOT payments is approximately \$5.9 million, with an average of \$1.1 million of revenue coming in the last quarter. The amount revenue delayed, is unknown at this time.

ENVIRONMENTAL IMPACT

The Council finds that the proposed action is exempt from the provisions of the California Environmental Quality Act (CEQA) under section 15061(b)(3) and 15378 in that there is no possibility that the implementation of this action may have significant effects on the environment, and that no further environmental review is required.

BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

This item was reviewed by the Economic Recovery Task Force on May 8, 2020.

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NOTIFICATION

Not applicable

ATTACHMENTS

- Urgency Ordinance

CONTACT

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