MEETING CALLED TO ORDER

ROLL CALL

1. APPROVAL OF MINUTES
   1A. 20-612 Approve Minutes of January 8, 2020 Special Meeting

   Attachments: FACM20200108

2. PUBLIC COMMENTS ON NON-AGENDA ITEMS

3. CONDUCT OF BUSINESS
   3A. 20-621 Receive Report Regarding Results of TOT Audit

   Attachments: TOT Audit Results
   Att 1 - Guest Charges Subject to TOT

   3B. 20-619 Receive Oral Update from Staff on Departmental Activities

4. MATTERS FROM COMMITTEE / STAFF

ADJOURNMENT

STATE OF CALIFORNIA )
)ss.
COUNTY OF MENDOCINO )

I declare, under penalty of perjury, that I am employed by the City of Fort Bragg and that I caused this agenda to be posted in the City Hall notice case on February 7, 2020.

Cristal Muñoz, Administrative Assistant

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This notice is in compliance with the Americans with Disabilities Act (28 CFR, 35.102-35.104 ADA Title II).
Agenda Number: 1A.
Approve Minutes of January 8, 2020 Special Meeting
MEETING CALLED TO ORDER

Chair Peters called the meeting to order at 11:01 AM

ROLL CALL

Staff Present: Finance Director Victor Damiani, Senior Government Accountant Isaac Whippy, and Administrative Assistant Cristal Muñoz. 

Present: 2 - Lindy Peters and Tess Albin-Smith

1. APPROVAL OF MINUTES

1A. 19-493  Approve the Minutes of November 6, 2019

The minutes were approved by the Committee as presented and will be forwarded for Council review.

2. PUBLIC COMMENTS ON NON-AGENDA ITEMS

None.

3. CONDUCT OF BUSINESS

3A. 20-549  Receive Fiscal Year 2019-20 First Quarter Financial Report

The Committee reviewed the report prepared for this item. The committee report was presented by Senior Government Accountant Whippy, who summarized the Introduction, General Fund Financial Summary, Water Enterprise Fund Financial Summary, Wastewater Enterprise Fund Financial Summary and Treasurer's Report. This report was prepared by the City Finance Department staff.

Public Comment:
* None.

Discussion:
* The report is intended to give committee and community an overview of the economic condition of the City.

There was discussion regarding the data that MuniServices provided for this report, Transient Occupancy Tax (TOT), Parcel Tax, General Sales Tax, Cannabis Tax, revenue infrastructure improvements and Certificates of Deposits.
No action was taken. This report is for information only.

3B. 20-561 Receive Reportable Items Report

This report will now have the Change Orders instead of the reports.

Discussion:
* Staff is still looking for quotes to get the clock repaired.

No action was taken. This report is for information only.

4. MATTERS FROM COMMITTEE / STAFF

Department Update:
Finance Director Victor reported on the following:
* Transition to US Bank is continuing and moving along.
* Utility Statements is hitting a stride with its third month and Finance Director Victor gives thanks to Administrative Assistant Cristal Munoz.
* Developmental Impacts Fee Reports were due December 31, 2019 and were completed on time to be published on City website.
* Staff is busy with various items that will go before City Council.
* Isaac Whippy has been promoted to Senior Government Accountant.
* AP has been very consistent and this is in part due to Finance Technician II Janet Ferraiolo and Senior Government Accountant Whippy.
* Mrs. Ferraiolo is also working proactively on the leak list to help those customers with leaks.
* Finance Technician III Laura Bianchi Limbird has been enforcing delinquent business licenses and getting those businesses to comply.

ADJOURNMENT

Chair Peters adjourned the meeting at 12:00 PM.
Receive Report Regarding Results of TOT Audit
BACKGROUND AND OVERVIEW:
Transient Occupancy Tax (TOT) is a local tax that is applied to the cost of hotel or other lodging stays of less than 30 days. In 2016, with passage of local Measures AA and AB, the City’s TOT rate increased from 10% to 12%. This tax is a revenue source solely for the General Fund. TOT is collected by lodging establishments and remitted to the City on a monthly basis. Factors influencing TOT revenues include vacancy rates, changes in business and leisure travel, new hotels, hotel expansion, and room rate increases.

Auditing of tax revenues is an important financial tool used to help ensure tax compliance and maximize the City’s revenue collection. Prior to the current audit, the City had not conducted a TOT audit in approximately ten years.

In November of 2018 Staff solicited proposals from two revenue enhancement firms that operate in California; Muni Services and Hdl. On January 28, 2019 the City of Fort Bragg City Council authorized staff to contract with Muni Services to conduct an audit of the hotel operators that collect and remit TOT in the City of Fort Bragg. The cost of the audit was not to exceed $30,400.

The Audit commenced in February of 2019. The review period was determined to be April 2016 through March of 2019. Staff provided detailed TOT tax returns (for all 27 operators in the City) to the Muni Services audit team who reviewed and summarized all of the returns. The auditors then analyzed the data and based on analyzed risk selected ten operators for audit. In September of 2019, Muni Services auditors travelled to Fort Bragg and visited each of the ten hotels for onsite visits. Auditors examined in detail each hotel’s books and records.

The Audit was finalized in January of 2020. The final cost of the audit was slightly over budget at $31,000 primarily due to travel reimbursement costs. Of the ten hotel operators under audit, four were issued letters of commendation while six were found to have reporting and payment deficiencies. The total amount of deficiencies found was approximately $100,000. Deficiency assessments ranged between approximately $1,000 and $34,000. Because TOT tax return
information is confidential no specific hotel names or deficiency assessment amounts will be used in this report. Some of the areas that led to underreporting included incomplete records, underreported rent, unsubstantiated food and beverage deductions, pet fees, late check out fees, roll away bed fees, embezzled funds deduction and non-taxation of first 30 days rent. A list of guest fees for which hotel operators commonly fail to collect TOT is attached to this report.

Commendation and deficiency letters will be sent to each of the audited hotel operators as of today February 12, 2020. Operators assessed a deficiency will have until March 31, 2020 to either pay the deficiency in full or make payment arrangements with the City Finance department.

RECOMMENDATION:
Staff recommends accepting this final audit report with presentation to the full council at the mid-year budget review on March the 5th, 2020. Staff further recommends conducting an audit of eight to ten hotel operators in each of the next two years so that all of the City’s hotel operators are audited within a three-year period.

ALTERNATIVES:
1. Request further details regarding the FY 2019/2020 TOT audit
2. Recommend an alternative ongoing audit schedule

ATTACHMENTS:
1. Guest Charges Subject to TOT Collection
**AttNine Common Guest Fees**

1. **No-Show Fees:**
   A No-Show Fee is charged when the potential guest breaches the contract he entered into when the reservation was made. By giving the lodging provider his credit card number, he is authorizing him to charge one nights rent (or however many days were agreed) as liquidated damages for a breach of the contract. And if the potential guest is charged “rent” then he must also be charged TOT.

2. **Attrition /Cancellation Fees for group bookings:**
   Same as No-Show Fees except that whereas these fees relate to an individual guest, Attrition Fees relate to an organization that has booked a series of “sleeping” rooms, meeting rooms and food beverage. The contract generally specifies that an “Attrition Fee” will be charged for any breach with specific liquidated damages. The ratio of sleeping accommodations to total services provided would be the percentage applied to the stated Attrition Fee which would be subject to TOT.

3. **Late/Early Check Out/In Fees:**
   A fee charged to a guest who requests to stay later than the stated check-out time, or early check-in. The Fee directly relates to sleeping accommodations and is therefore considered rent and is subject to TOT.

4. **Extra Person Charges:**
   Room rates are generally quoted for double occupancy and any guests exceeding that stated number would be subject to this extra charge. This charge directly relates to sleeping accommodations and is therefore considered rent and is subject to TOT.

5. **Resort Fees:**
   These fees are an additional charge to guests that cover such things as Wi-Fi, use of swimming pool, Gym or any other guest service. If the fee is Non-Optional (if you don’t pay, you don’t get to stay), then it is just another name for rent. And if it is rent, then it is subject to TOT.

6. **Cleaning Fees:** (These fees relate only to units rented by rental agencies)
   These Non-Optional fees are charged to guests for cleaning the rented sleeping accommodations (single family houses, condominiums or townhouses) owned by individuals. They are sometimes included in the quoted rental rate and would be subjected to TOT. If however these fees are listed separately they are still considered Non-Optional rent charges that are subject to TOT.

7. **Surcharges:**
   A surcharge would be a charge In addition to the usual rental payment and would include such items as an energy surcharge or an in-room safe charge. If these fees are Non-Optional, they are considered rent by another name, but still rent and therefore are subject to TOT.

8. **Roll-Away Bed Charge:**
   These charges are directly related to sleeping accommodations and are therefore deemed consideration paid for the privilege of occupancy and therefore are subject to TOT.
9. **Pet Fees:**
These Fees are considered as a Non-Optional charge for the guest that agrees to pay this extra charge to have their pet stay in the room. If the guest does not agree to pay the extra charge, then he is not allowed to occupy the room – with his pet. And since Non-Optional charges are considered another name for rent, they are subject to TOT.

These charges can be classified as follows:

**DIRECTLY RELATED TO SLEEPING ACCOMMODATIONS**
- No-Show Fees
- Attrition/Cancellation Fees
- Late/Early Check-Out/In Fees
- Extra Person charge
- Roll-Away Bed Charge

**NON-OPTIONAL CHARGES (Mandatory)**
- Resort Fees
- Cleaning Fees
- Surcharges
- Pet Fees
Recieve Oral Update from Staff on Departmental Activities