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**Report**

**Hotel Occupancy Tax Revenue Review**

**June 22, 2011**

Office of the City Auditor  
Austin, Texas

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# City of Austin

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## Office of the City Auditor

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Date: June 22, 2011  
To: Mayor and City Council  
From: Kenneth J. Mory, City Auditor  
Subject: Hotel Occupancy Tax Revenue Review Report

I am pleased to present this revenue review report on the Hotel Occupancy Tax.

The objective of this review was to assist the City of Austin Controller's Office in identifying hotel occupancy tax revenue deficiencies in hotels and short term vacation rental properties (STRs), as well as to educate hotel and STR owners/operators on requirements for documentation and remittance of taxes.

Total HOT deficiencies identified for the STRs and hotels reviewed equaled \$50,597. Twenty-two of thirty-three (67%) STRs reviewed had HOT deficiencies totaling \$32,500. Twenty (61%) of the STRs reviewed were not registered with the City. Three of the nine (33%) hotels reviewed were not in compliance, for a total deficiency of \$18,100. The compliance rate for hotels is higher than recent past reviews but the compliance issues are still a concern.

As part of this review we determined that recommendations from previous HOT revenue review reports have not been implemented. These include for the City Controller's Office to improve their website to improve information and ease of use, and complete an updated Hotel Occupancy Tax Ordinance for review by Council. Management had previously concurred with these recommendations.

We appreciate the cooperation and assistance we received from staff in the Controller's Office and the student team from the McCombs School of Business during this revenue report.

cc: City Manager  
Assistant City Managers  
Chief Financial Officer  
Controller  
Public Information Officer

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## **BACKGROUND**

The City of Austin levies a hotel occupancy tax (HOT) of nine percent on overnight stays costing more than two dollars a night in hotels, motels, tourist homes, tourist courts, lodging houses, inns, rooming houses, and bed and breakfasts. As of the first quarter 2011, there were approximately 280 establishments listed by the City of Austin Controller's Office collecting and remitting the Hotel Occupancy Tax.

This is the eighth HOT revenue review report conducted in this series, which began in 2005. Our prior reviews have resulted in identifying approximately \$1.7 million in hotel occupancy tax owed to the City by hotels. In 2010, the Audit and Finance Committee requested the City Auditor to conduct revenue reviews of short term vacation rental homes as well and this review contains both local hotels and STRs.

## **OBJECTIVES, SCOPE AND METHODOLOGY**

### **Objectives:**

- Assist the City of Austin Controller's Office in identifying hotel occupancy tax revenue deficiencies in hotels and STRs.
- Identify STRs and register them with the City Controller's Office
- Review and educate the hotel and STR owners/operators on applicable State and City laws and City requirements for documentation and remittance of taxes.

### **Scope:**

- Hotel documentation for exclusions, exemptions, registration, and revenue remittance for 9 hotels
- Registration and rental documentation for 33 short term vacation rental owners
- Reported occupancy and revenues for the fourth quarter of FY 2007 through the first quarter of FY 2011

### **Methodology:**

To accomplish our objectives, we:

- Used a risk-based criteria to determine high risk hotels for review
- Reviewed applicable laws and regulations
- Reviewed documentation from the City Controller's Office and the State Comptroller's Office
- Interviewed hotel and STR owners, operators and managers.
- Reviewed hotel documentation.
- Identified STRs listed on major STR marketing websites and began contacting them.

## HOT REVENUE REVIEW PROJECT RESULTS

**Total HOT deficiencies identified for the STRs and hotels reviewed equal \$50,597.**

**Twenty-two of thirty-three (67%) STRs reviewed had HOT deficiencies, totaling \$32,496.** Twenty (61%) of the STRs reviewed were not registered with the City. Of those, seventeen had rentals for the period reviewed, and had an outstanding liability of \$25,867. An additional five STRs reviewed were registered with the City, but had an outstanding liability totaling \$6,629. Eight of the thirty-six (22%) were registered with the City and had no tax liability. (See the table below)

### Short Term Vacation Rentals Reviewed

Short Term Rentals by Number of Owners	Number	Amount
STRs Unregistered with Liability	17	\$25,867
STRs Unregistered Advertised but not Rented	3	\$ 0
STRs Registered with Liability	5	\$6,629
STRs Registered with No Liability	8	\$ 0
<b>TOTALS</b>	<b>33</b>	<b>\$32,496</b>

Source: OCA analysis of owner financial records (unaudited)

**Three hotels of nine (33%) reviewed were not in full compliance with the City’s Hotel Occupancy Tax Ordinance, with a resulting revenue deficiency of \$18,101.** The compliance rate for hotels is higher than recent past reviews but the compliance issues are still a concern. Understanding and application of State law and City ordinance still presents a compliance barrier for some hotels. The compliance issues identified in this project include:

- Poor record keeping, including missing records and accounting errors
- Poor understanding and application of State law and City ordinance, including multiple instances of tax exclusions granted to guests not eligible for them. These are clear indicators that some hotels still do not understand the applicable regulatory codes.

### RECOMMENDED FOR FUTURE ACTION:

Recommendations from previous HOT revenue review projects related to governance of the HOT tax collections have not been implemented. These include:

- The Controller’s Office should improve the department website to provide more consumer information, online registration, and allow for electronic HOT remittance.
- The Controller’s Office should complete a revised HOT ordinance for review and approval by City Council