

# MEMORANDUM

Finance Department



**DATE:** August 23, 2018  
**TO:** Mayor and City Council  
**THROUGH:** Julie Edmonds-Mares, City Manager   
**FROM:** Will Fuentes, Director of Financial Services  
**SUBJECT:** Transient Occupancy Tax Services – November 2018 Ballot

This staff memorandum provides information in response to questions raised by City Council about potential impacts to hotel and motel businesses as a result of an increase in the Transient Occupancy Tax (TOT) rate.

### Background:

At the August 7, 2018 meeting, City Council approved the placement of a Transient Occupancy Tax (TOT) increase on the November 2018 ballot by a unanimous 4 – 0 vote, with one absent. If approved by Milpitas voters on November 4<sup>th</sup>, the associated tax ordinance would allow City Council to raise the current TOT rate from 10% up to a maximum of 14%.

Subject to voter approval, Council will have discretion to set the TOT rate up to 14%. Staff will present a study with full analysis including current data and bring forward rate recommendations to Council at its November 20, 2018 meeting. This will allow adequate transition time for Milpitas hotels and motels to implement any changes to the rate in a timely manner. As noted previously and in the ballot language, an increase to a maximum 14% TOT rate could generate approximately \$5.2 million per year initially and increase to \$7.2 million by Fiscal Year (FY) 2023-24 after the planned development of six new hotels.

At the August 7 meeting, there were questions about potential impacts of an increase in the TOT tax rate. Prior to recommending a new TOT rate, staff will perform a business impact analysis to determine whether hotel and motel occupancy rates would decrease as a direct result of a TOT rate increase only. Please note that hotel and motel occupancy demand and TOT tax revenues are dependent on a number of factors such as, but not limited to, the economy, proximity to business or personal travel purpose, quality of establishment and amenities offered, base price in relation to a traveler's budget, and all other taxes and fees. Thus, while TOT rates may play a role in determining hotel and motel demand, they are not the only factor in determining a personal or business stay for travelers.

For reference and as presented previously, the following cities within the Bay Area have also placed TOT rate increases on the November 2018 ballot:

<b>City of:</b>	<b>Current Rate</b>	<b>Proposed Rate</b>
Palo Alto	14.0%	15.5%
Los Altos	11.0%	14.0%
Sunnyvale	10.5%	12.5%
Morgan Hill*	10.0%	11.0%

*\*Plan to create a Tourism Business Inclusion District (TBID) if TOT increase passes. TBID would be an additional tax of 1.5% which hotels would collect from patrons to boost marketing and promotion of City.*

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Palo Alto previously increased their TOT rate from 12% to 14% in 2014 (a 16.67% rate increase) and saw a 36% increase in TOT revenues the first year and a 34% increase the second year after implementation. Campbell also increased their TOT rate from 10% to 12% in 2011 (a 20% rate increase) and saw a 27% increase in TOT revenues the first year and an 11% increase the second year after implementation.

Additionally, a 1991 study conducted by researchers at the University of Hawaii Economics Department, which analyzed a 1986 TOT rate increase from 4% to 9% in Hawaii, showed no significant negative impacts to demand and hotel and motel revenue as result of that increase<sup>1</sup>. This was a study using hotel revenue data from approximately 8,000 to 10,000 hotels in the State of Hawaii over a ten-year period from 1980 to 1990, with much of the focus on the four-year period from 1986 to 1990.

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<sup>1</sup> "The Impact of the Hotel Room Tax: An Interrupted Time Series Approach" by Carl Bonham, Edwin Fujii, Eric Im, and James Mak (November 1991) [http://www.economics.hawaii.edu/research/workingpapers/88-98/WP\\_91-24.pdf](http://www.economics.hawaii.edu/research/workingpapers/88-98/WP_91-24.pdf)