

Memorandum



CITY OF DALLAS

DATE March 29, 2019

Honorable Members of the Government Performance & Financial Management
Committee: Jennifer S. Gates (Chair), Scott Griggs (Vice Chair), Sandy Greyson,
TO Lee M. Kleinman, Philip T. Kingston, Tennell Atkins, Kevin Felder

SUBJECT **Online Hotel Occupancy Tax Registration and Collection**

On April 1, I will present a briefing to the Government Performance and Financial Management Committee on Online Hotel Occupancy Tax Registration and Collection. The briefing materials are attached for your review.

If you have any questions or concerns, please contact my office at (214) 670-3390.

M. Elizabeth Reich

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Chief Financial Officer

Attachment

c: Honorable Mayor and Members of the City Council
T.C. Broadnax, City Manager
Chris Caso, City Attorney (Interim)
Carol Smith, City Auditor (Interim)
Billierae Johnson, City Secretary
Preston Robinson, Administrative Judge
Kimberly Bizer Tolbert, Chief of Staff to the City Manager

Majed A. Al-Ghafry, Assistant City Manager
Jon Fortune, Assistant City Manager
Joey Zapata, Assistant City Manager
Nadia Chandler Hardy, Assistant City Manager & Chief of Resilience
Laila Alequresh, Chief Innovation Officer
Directors and Assistant Directors

Online Hotel Occupancy Tax Registration and Collection

**Government
Performance & Financial
Management Committee**

April 1, 2019

**Elizabeth Reich
Chief Financial Officer**



Overview

- Background
- Current state of hotel occupancy tax (HOT) registration and collection
- Upcoming changes
- Proposed action
- Next steps

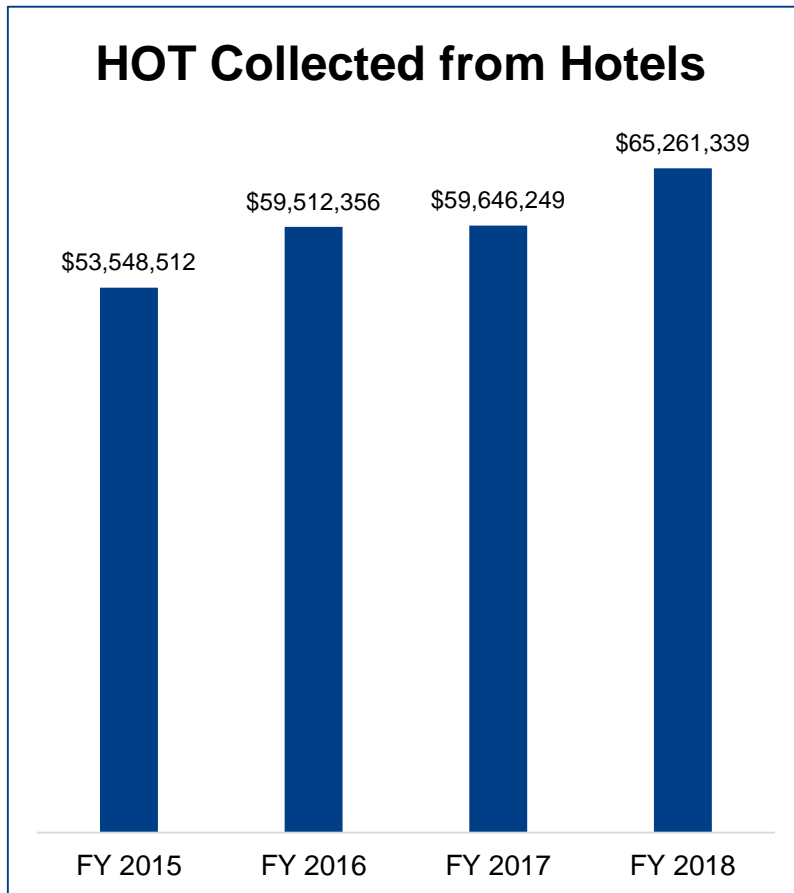
HOT Background

- The City Controller's Office (CCO) handles HOT registration and collection on behalf of the Convention Center
- Any company or individual that owns, operates, manages, or controls a hotel in the City is responsible for registering the hotel, collecting HOT, and remitting it to the City
- There is no fee to register the hotel with CCO
- HOT rate = 7% of net room receipts

Current HOT Registration and Remittance

- Hotels must register using the Hotel Registration Form on the City's HOT website; the form may be submitted via email, mail, or in person
- Hotels are required to report receipts and submit payment to the City by mail or in person on a monthly basis
 - Reports and payments are due by the 15th day of the month after the month the tax is collected
 - Monthly report is due even if the hotel had no room receipts
- Failure to comply may result in tax liabilities, including fines, penalties, and interest

Hotel Population

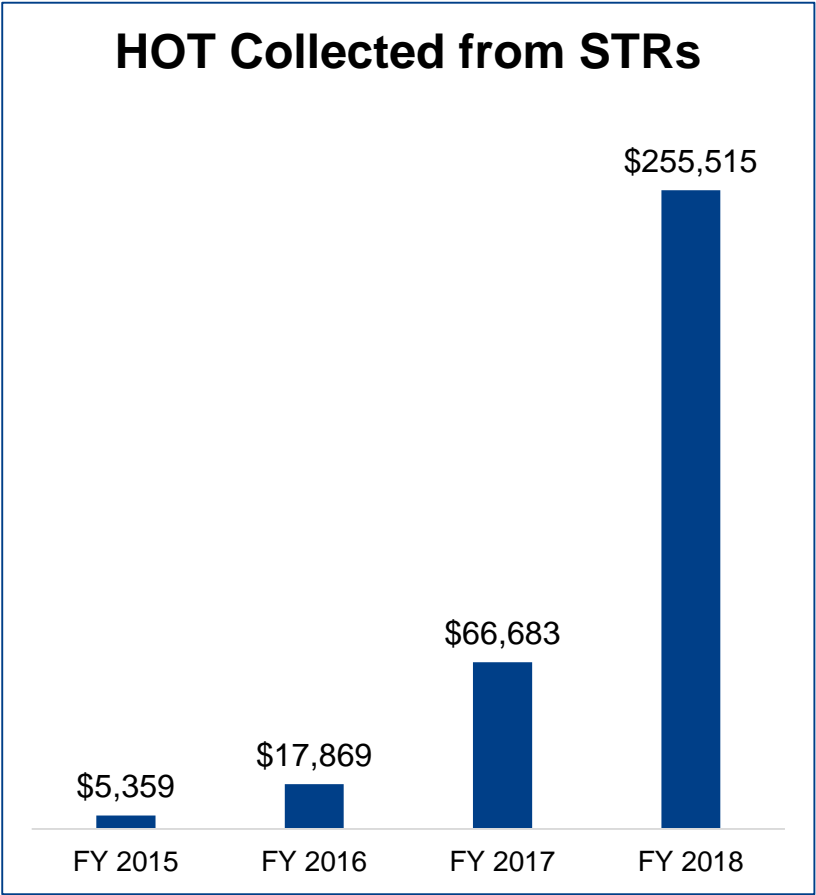
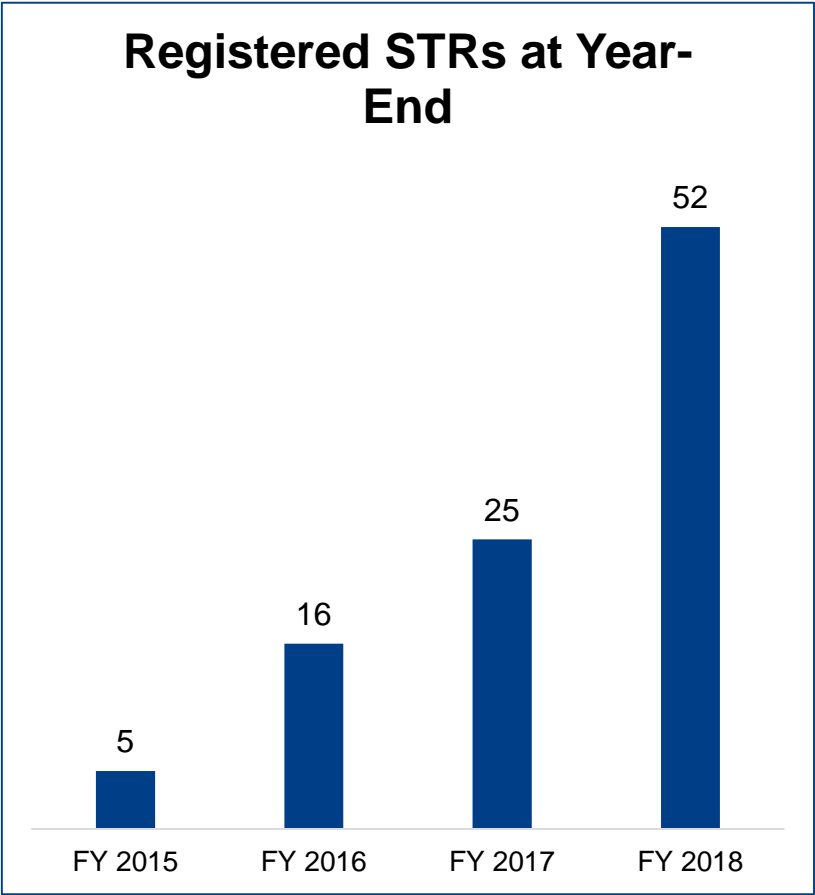


- As of December 2018, 298 hotels were registered with the City
- The City has collected almost \$21.9 million in HOT so far in FY 2019

Short-Term Rentals and HOT

- Short-term rentals (STRs) are considered hotels under Dallas City Code and Texas Tax Code and are subject to HOT
- An STR is any property rented for fewer than 30 consecutive days
- Between FY 2015 and FY 2018, the number of STRs registered with the City and making HOT payments increased significantly.

Current STR Population



Potential STR Population

- Estimates for STRs currently operating in Dallas range from 2,000-3,000 with an estimated daily rate of \$183
- The reported average occupancy rate for Airbnb properties in Dallas in 2018 was 52%
 - Rates for other major U.S. cities range from 38% (Springfield, IL) to 73% (San Francisco, CA)
- Based on these assumptions, the City could be collecting between \$3.5 and \$7 million in HOT each year from STRs alone once full compliance is achieved

HOT Compliance Challenges

- Registration and remittance of HOT relies on self-reporting
- Many operators may not know they are required by law to collect and remit taxes
- STR platforms generally do not provide comprehensive information to hosts about local and state laws regarding HOT
- STR platforms do not provide cities with host information

Online HOT Portal

- In November 2018, the City advertised an RFCSP for a vendor/system that:
 - Allows hotel owner/operators to register their property, report receipts, and pay HOT online
 - Identifies and contacts STRs operating in the city who have not yet registered and/or are failing to report
- The most qualified vendor is MUNIRevs dba LODGINGRevs
 - Track record with other high-tourism municipalities
 - Cites compliance levels of 98.5% and better

Minimum Requirements

Discovery and Monitoring/Evaluation Services

- Have knowledge of scraping process to identify and locate new hotels and STRs not currently known to the City
- Be able to communicate with unregistered hotels and STRs to elicit registration and compliance with City codes, including HOT requirements
- Have the capacity and capability to make initial contact with registered hotels and STRs to invite them to register and participate in the online system
- Be able to provide ongoing communication with registered hotels and STRs to monitor and evaluate self-reported occupancy

Minimum Requirements

Online System: Hotel and STR Online Capabilities

- Enable users to self-register properties online; refer to sample tax registration form
- Enable the system to collect and store relevant registration information automatically (Business Partner Number and other stipulated information from the registration form)
- Enable users to manage accounts and make changes to account information as needed
- Enable users to self-report HOT online; refer to sample tax reporting form
- Enable users to pay HOT online via credit card/ACH in accordance with all City security requirements

Minimum Requirements

Online System: City Controller's Online Capabilities

- Enable administrative portal and ability for CCO to enter taxes and payment information for non-electronic users
- Enable CCO to approve all newly registered properties and property account edits
- Enable the City to monitor and audit hotels and STRs (run reports, view forms, view payment history, etc.)
- Enable business intelligence and administrative reporting of HOT information
- Provide dashboard within online system for efficient overview of:
 - Status of new hotel and STRs discovered
 - Status of hotel and STR registrations, report submissions, and payments

Minimum Requirements

Data Integration

- Enable City to transfer information/data received online or integrate with the City's Enterprise Resource Planning (ERP), Customer Relationship Management (CRM), and/or code compliance systems by flat file or Application Program Interface (API)

Benefits for the City

- Allowing owners to self-report HOT/TPID and make payments online is expected to improve compliance and increase revenue collection
- Automating registration, reporting, and payments reduces manual entry by City staff, which ultimately reduces errors
- Online monitoring, performance, and evaluation capabilities will allow CCO to effectively work with hotels and STRs in compliance reporting and auditing
- Business intelligence and reporting capabilities provide additional flexibility in report creation, including statistical analysis and trend visualization

Benefits for Hotel/STR Operators

Hotel operators and STR hosts can:

- Register and submit HOT reports online and remit taxes online by credit card or e-check
 - Eliminates travel to City Hall (traffic, parking, etc.)
 - Avoid lost checks or missed deadlines because of mail processing times, resulting in lost discounts, penalties, and/or interest
- Access reporting history to accurately forecast future months' revenue
- Edit existing registration information (instead of re-registering when information changes)

Communication Plan

- Again, hotel/STR operators may be unaware of the City's HOT requirements
- We are developing a communication plan that encourages compliance by:
 - Clearly informing STR owners of their responsibility
 - Emphasizing the online system's convenient features and ease of use
- Requested sample communications from the vendor used in other municipalities, which we will revise as appropriate

Next Steps

- The contract is scheduled for City Council consideration on April 10
- If approved, full implementation is expected by the beginning of FY 2020 (October 1)

Online Hotel Occupancy Tax Registration and Collection

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Management Committee

April 1, 2019

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Chief Financial Officer



Appendix



Dallas City Code, Ch. 27, Sec. 27-30

- The owner of a rental property located in the city commits an offense if he operates the rental property or otherwise allows a dwelling unit in a rental property to be obtained or leased without first submitting a rental registration application or annual reapplication that fully complies with Section 27-31 of this article.
- A condominium association commits an offense if it governs, operates, manages, or oversees a condominium complex or its common elements located in the city without first submitting a rental registration application or annual renewal application that fully complies with Section 27-31 of this article.
- A person commits an offense if he, as a landlord or property manager, operates a rental property or otherwise allows a dwelling unit in a rental property to be occupied or leased without first submitting a rental registration application or annual renewal application that fully complies with Section 27-31 of this article.
- It is a defense to prosecution under this section if, at the time of the notice of violation:
 - The property use was a short-term rental; and
 - Applicable hotel occupancy taxes levied on the property under Article V, Chapter 44 of the City Code has been collected and remitted in full
- If complaints are received on the property, it will be subject to inspection
- Short-term rental has the definition given that term in Section 156.001 (b) of the Texas Tax Code, as amended

Allowable Uses for HOT

Chapter 351, Texas Tax Code establishes two-part test for HOT:

- Revenue may be used only to promote tourism or the convention and hotel industry
- Use must fall into statutorily-provided category:
 - Establishment, improvement, or maintenance of a convention center or visitor information center
 - Administrative costs for facilitating convention registration
 - Advertising, solicitations, and promotions that attract tourists and convention delegates to the city or its vicinity
 - Promotion of the arts
 - Historical restoration or preservation programs
 - Transportation systems for tourists
 - Signage directing tourists to sights and attractions frequented by hotel guests in the municipality

Allowable Uses for HOT (cont.)

Activities Allowed by Ordinance	Statutory Cap or Threshold	Portion of 7% Pledged by Ordinance
Funding for establishment, improvement, or maintenance of a convention center or visitors information center [351.101(a)] and payment of bonds [351.106(1)(b)]	No more than 55% of revenues No more than 4% from HOT [351.106(a)]	4.718%
Administrative costs to facilitate convention registration	n/a	n/a
Advertising, solicitations, and promotions that attract tourists and convention delegations or registrants to the municipality or its vicinity	No more than 45% of revenues No more than 4% of HOT [351.106(b)]	1.35%
Encouragement, promotion, improvement, and application of arts.	No more than 15% of HOT	1.05%
Historical restoration or preservation projects	No more than 15% of HOT	1%
Funding transportation system for tourists	n/a	n/a
Signage to direct tourists to sights and attractions visited by tourists	n/a	n/a

Procurement Process

- Procurement Services (POM) advertised the RFCSP (BUZ1902) for Short-Term Rental and Hotel Occupancy Tax Online on Nov. 8 and 15, 2018
- As part of POM's vendor notification process, 2,235 electronic notices were sent via the City's web-based procurement system
- Additionally, the Office of Business Diversity's ResourceLINK Team notified 25 chambers of commerce and two advocacy groups (DFW Minority Business Council and Women's Business Council-Southwest)

Procurement – Pre-Proposal Meeting

- POM conducted a pre-proposal meeting on Nov. 20, 2018, and four companies were represented:
 - MUNIREvs, Inc. dba LODGINGrevs
 - LTAS Technologies, Inc
 - NebuLogic Technologies, LLC
 - Pioneer Technology Group, LLC
- Participants discussed several topics, including:
 - Registration form
 - Scraping process
 - Penalties for TPID and HOT reporting and payments
 - Reporting requirements
 - Expected system capabilities
- All questions were posted on the City's bid website per standard procedure

Procurement – Evaluation

- POM received four proposals on Dec. 20, 2018, which were distributed to the evaluation committee for review of the minimum requirements
- The evaluation committee consisted of representatives from:
 - City Controller's Office (2)
 - Convention and Event Services(1)
 - Communication and Information Services (1)
 - Dallas Water Utilities (1)
 - Office of Business Diversity (1)
 - Office of Procurement Services (1)

Procurement – Evaluation (cont.)

Evaluation Criteria	Weight
Cost	30%
Technical Match	25%
Functional Match	20%
Business Inclusion and Development Plan (BID)	15%
Capabilities and Expertise	10%



Procurement – Evaluation Results

- The evaluation committee reviewed all four proposals to determine responsiveness to the minimum requirements in accordance with the Scope of Work section 2.0 and Attachment 2 – Functional Requirements Matrix
- MUNIREvs, Inc. dba LODGINGrevs, LTAS Technologies, Inc., NebuLogic Technologies, LLC, and Pioneer Technology Group, LLC, were invited to present to the evaluation committee based on their proposals
 - NebuLogic Technologies, LLC, declined the invitation to present
- Vendors were scored based on written proposals and information delivered during presentations
- These scores were used to determine a recommended vendor for award

Procurement – Evaluation Results

Proposal	Cost (30%)	Capability & Expertise (10%)	Functional Match (20%)	Technical Match (25%)	BID (15%)	Final Score without Cost	Final Score with Cost
MUNIREvs, Inc. dba LODGINGrevs	\$495,000						
<i>Overall Score</i>	30.00	9.00	18.25	25.00	4.00	56.25	86.25
LTAS Technologies, Inc.	\$702,685						
<i>Overall Score</i>	21.13	6.75	12.50	5.00	4.00	28.25	49.38
NebuLogic Technologies, LLC	\$830,822						
<i>Overall Score</i>	17.87	6.00	14.00	7.00	4.00	31.00	48.87
Pioneer Technology Group, LLC	\$2,563,500						
<i>Overall Score</i>	5.79	6.50	14.25	8.00	5.00	33.75	39.54

STR Research

Staff researched multiple U.S. cities to identify common practices for tracking and regulating STRs and collecting HOT:*

- Austin
- Chicago
- Denver
- Galveston
- Houston
- Los Angeles
- Nashville
- New York City
- San Antonio
- Santa Fe

*This data was gathered over the last two years and may not be current.

30

STR Research: Austin

- Ordinance

- Enacted November 2015 and revised February 2016
- Operators must register with City and provide:
 - Proof of inspection
 - Proof of property insurance
 - \$443.00 non-refundable fee (or \$236 renewal fee)
- Registration can be completed online
- STR may not be used by more than: (1) 10 adults at one time, unless a stricter limit applies, or (2) six unrelated adults
- Other rules apply depending on zoning, HOA, and other factors; special zones named in the ordinance have heavier restrictions
- Hosts must provide guests with owner contact information, specifics on the City's ordinance, and rules of conduct

- Enforcement

- 311-supported complaint line and a 311 app specifically for STR reporting
- STR listings must include license/registration number
- Fines up to \$2,000 per day; licenses may be revoked for continued violations
- Enforced by Department of Code Compliance

- Taxation

- STR operators must collect and remit taxes
- The City of Austin has no tax agreement with Airbnb (Texas does)

STR Research: Chicago

- Ordinance
 - City of Chicago Shared Housing Ordinance, June 2016
 - Operators must be registered or licensed and comply with various requirements depending on unit type and ownership
 - Registration typically completed through STR platforms at no cost to operator
 - STR platforms must be licensed as intermediary or advertising platform and share data with the City
 - Intermediaries (like Airbnb) must pay fee of \$60/unit and \$10,000 annually
 - Hosts who operate more than one unit must obtain a permit and follow “shared housing unit operator” requirements
 - Buildings may register as “prohibited” facilities and ban STR operations; HOAs, landlords, cooperatives, and other such entities can also supersede STR operation
 - Hosts must provide guests with owner contact information, specifics on the City’s ordinance, and rules of conduct
- Enforcement
 - 311-supported complaint line
 - STR listings must include license/registration number
 - Fines of \$1,500-\$3,000 per offense; licenses may be revoked for continued violations
 - Enforced by Chicago Business Affairs and Consumer Enforcement agency
- Taxation
 - The City of Chicago has a Voluntary Tax Agreement with Airbnb; non-Airbnb STR operators must collect and remit taxes separately
 - STRs designated as vacation rentals must pay a 4% shared housing surcharge in addition to HOT

STR Research: Denver

- Ordinance
 - Enacted May 2016
 - Operators must register with the City:
 - \$25 annual business license fee
 - \$50 fee for Hotel Lodger's Tax ID (paid every two years)
 - Only permitted for homesteads
 - Operators can register and pay taxes online
 - Must adhere to applicable zoning rules, as well as HOA, landlord, or co-op restrictions
- Enforcement
 - 311-supported complaint line
 - STR listings must include license/registration number
 - Fines of \$199-\$999 per offense
 - Free mediation services available for STR operators and other residents
 - Enforced by Department of Excise and Licenses
 - HostCompliance contracted to monitor illegal listings and provide data to officials
- Taxation
 - STR operators must collect and remit taxes
 - The City of Denver has no tax agreement with Airbnb (Colorado does)

STR Research: Galveston

- Ordinance
 - Enacted January 2015
 - Operators must register with the City:
 - \$50 registration fee
 - Operators can register and pay taxes online
 - Hosts must provide guests with owner contact information, specifics on the City's ordinance, and rules of conduct
- Enforcement
 - 311-supported complaint line
 - Fines up to \$500 for failure to register or remit payment
 - Enforced by Park Board
 - Use reverse geocoding program to unmask latitude/longitude and translate to address
- Taxation
 - STR operators must collect and remit taxes
 - Failure to pay timely may result in \$25 late fee

STR Research: Houston

- Ordinance
 - Operators must register with the City and submit quarterly occupancy reports
 - Operators can register and pay taxes online
 - Hosts must provide guests with owner contact information, specifics on the City's ordinance, and rules of conduct
- Enforcement
 - 311-supported complaint line
 - Enforced by Permitting and Code Compliance
- Taxation
 - STR operators must collect and remit taxes
 - STR operators must maintain quarterly records
 - Failure to pay timely may result in interest and penalties

STR Research: Los Angeles

- Ordinance
 - Enacted December 2018, effective July 2019
 - Operators must register with the City:
 - \$89 annual business license fee
 - Only permitted for homesteads; prohibits apartment conversions
 - Rentals initially capped at 120 days per year; may apply for cap increase:
 - Must be free of citations
 - \$850 fee
 - Must adhere to applicable zoning rules, as well as HOA, landlord, or co-op restrictions
- Enforcement/Taxation
 - 311-supported complaint line
 - Collection agreement with Airbnb; platform collects taxes and remits lump sum to the City
 - Platforms subject to fines of \$1,000 for every day an unregistered host rents a property

STR Research: Nashville

- Ordinance
 - Three ordinances enacted in 2014
 - Operators must register with the City and provide:
 - Proof of liability insurance (≥\$1M)
 - Proof of residence
 - Written notification to adjacent properties
 - \$50 annual permit fee (must be obtained in person at City Hall)
 - Cannot contain more than four sleeping rooms
 - Must adhere to applicable zoning rules, as well as HOA, landlord, or co-op restrictions
 - Must provide guests with owner contact information, specifics on the City's ordinance, and rules of conduct
- Enforcement
 - 311-supported complaint line
 - STR listings must include license/registration number
 - Fines of \$50 per offense; licenses may be revoked for continued violations
 - Enforced by Department of Codes Administration
 - HostCompliance contracted to track listings online
- Taxation
 - STR operators must collect and remit taxes
 - Operators must also file for Hotel Occupancy Privilege Tax Account Number

STR Research: New York City

- Ordinance
 - New York State Multiple Dwelling Law
 - Registration requirements:
 - Private homes (1-2 units) are free to rent provided they comply with NYC zoning; no registration required
 - 3+ units are prohibited from STR operation unless owner is present; depending on zoning, property may register as B&B or hotel
 - Must follow NYC Building Code; landlords, co-ops, and rent-controlled or stabilized properties can restrict STRs
- Enforcement
 - 311-supported complaint line
 - Fines of \$2,500 per day for illegal STRs or \$1,000-\$7,500 for illegal ads
 - Enforced by Mayor's Office of Special Enforcement
- Taxation
 - STR operators not required to collect and remit taxes
 - Hotels and B&Bs must collect and remit taxes
 - NYC has no tax agreement with Airbnb (New York does)

STR Research: San Antonio

- Ordinance
 - Operators must obtain permits for each STR unit:
 - \$100 permit fee/unit
 - Permits valid for three years
 - Must provide guests with owner contact information, specifics on the City's ordinance, and rules of conduct
- Enforcement
 - 311-supported complaint line
 - Fines of \$200-\$500 per day and/or permit revocation
- Taxation
 - STR operators must collect and remit taxes and submit quarterly occupancy reports
 - Failure to pay timely may result in interest and penalties
 - Failure to pay may result in permit revocation

STR Research: Santa Fe

- Ordinance
 - Operators must obtain permits for STRs in areas zoned as residential:
 - Required to notify neighbors within 200 feet
 - Can apply for permit online
 - Operators must register STRs in non-residential areas
- Enforcement/Taxation
 - City contracts with auditor to audit STRs
 - Collection agreement with Airbnb; platform collects taxes and remits lump sum to the City
 - Unregistered hosts are considered in violation, but no known penalty