Audit of the Transient Occupancy Tax

Report# 2026/27-04|September 2026

The City's Transient Occupancy Tax Code Appears More Restrictive on the Use of Remittances Than Those of Benchmarked California Cities.

The City Appropriately Used Restricted Transient Occupancy Tax Revenues in Accordance with Sacramento City Code Requirements.

The City Can Strengthen Its Control Framework for Administering Short-Term Rental Transient Occupancy Tax.

The City Can Strengthen Processes Used to Track and Support Transient Occupancy Tax Revenues.

City of SACRAMENTO
Office of the City Auditor

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Office of the City Auditor

AUDIT FACT SHEET

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BACKGROUND

Transient Occupancy Taxes (TOT) are an important revenue source for local governments, taxing stays at hotels and other short-term lodging. Sacramento imposes a 12 percent TOT on taxable transient lodging, including permitted short-term rentals (STR). The growth of short-term rental platforms has created challenges for cities seeking to identify taxable activity, ensure fair competition, and maintain effective oversight. This audit evaluated the City's administration and oversight of TOT, including whether the City appropriately tracks, accounts for, and expends revenues; identifies hotels and short-term rentals subject to the tax; and ensures taxes are accurately reported and remitted. The audit also compared Sacramento's short-term rental oversight with selected California jurisdictions.

FINDINGS

Finding 1: The City's Transient Occupancy Tax Code Appears More Restrictive on the Use of Remittances Than Those of Benchmarked California Cities.

- The City's restricted TOT revenues limit its flexibility to address General Fund shortfalls and service demands. Benchmarking found California cities vary in how they restrict TOT revenues, highlighting tradeoffs between dedicated funding and broader fiscal flexibility during economic stress.

Finding 2: The City Appropriately Used Restricted Transient Occupancy Tax Revenues in Accordance with Sacramento City Code Requirements.

- The City has procedures to ensure restricted TOT expenditures comply with City Code, and testing found all reviewed expenditures were consistent with authorized uses.

Finding 3: The City Can Strengthen Its Control Framework for Administering Short-Term Rental Transient Occupancy Tax.

- The City can strengthen STR tax administration by reconciling operator information, tracking hosting platforms, and comparing available data. Current gaps contribute to reactive oversight and limit Revenue's ability to identify taxable activity and verify complete and accurate TOT remittances.
- The City can strengthen STR tax oversight by independently verifying the completeness and accuracy of remittances. Current platform reporting generally provides aggregate payments without property-level detail, limiting assurance that applicable taxes are accurately calculated, collected, and fully remitted.
- The City can strengthen STR tax oversight by establishing a structured, risk-based monitoring program. Current monitoring does not comprehensively assess the broader STR marketplace. Without ongoing monitoring, Revenue has limited assurance that emerging activity, platform changes, discrepancies, and other compliance risks will be identified and addressed in a timely manner.

Finding 4: The City Can Strengthen Processes Used to Track and Support Transient Occupancy Tax Revenues.

- Revenue can strengthen TOT administration by improving tracking, reducing manual processes, and implementing documented review procedures.

RECOMMENDATIONS

We made several recommendations regarding the administration of the Transient Occupancy Tax. Our Recommendations included:

STR Identification

- Develop procedures to identify and maintain complete, current information on short-term rental operators, properties, and platforms.
- Establish procedures to identify hosting platforms, ensure tax compliance, and supervise remittance verification and discrepancies.

STR Verification

- Develop procedures to verify STR remittances, reconcile available information, identify and investigate noncompliance, recover unpaid taxes and assessments, and document discrepancies and resolutions.
- Establish procedures to address noncompliance, recover unpaid taxes and assessments, ensure hosting platform compliance, and document enforcement actions and outcomes.

STR Monitoring

- Develop procedures for ongoing STR activity and compliance monitoring, including data sources, frequency, responsibilities, and documentation, and evaluate staffing, technology, and contracted service options.
- Following ordinance implementation, evaluate hosting platform data for completeness, accuracy, timeliness, and adequacy, and address identified limitations.

TOT Modernization

- Evaluate system-based solutions to reduce reliance on manually maintained spreadsheets for tracking and reconciling TOT information.

Introduction

In accordance with the City Auditor's 2026/27 Work Plan, we have completed the *Audit of the Transient Occupancy Tax*. We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The City Auditor's Office would like to thank the Finance Department and the Convention and Cultural Services Department for their cooperation during the audit process.

Background

As governments across the country face weaker revenue growth and persistent fiscal pressures, local, state, and federal policymakers are under increasing pressure to identify additional sources of revenue to address budget shortfalls. One strategy is to seek additional funds from transient guests by taxing short-term lodging used by visitors through the creation of transient occupancy taxes.

The Transient Occupancy Tax (TOT) is charged on stays in hotels and other short-term rentals. It was originally created to help cities cover the added costs of serving visitors, such as public safety and infrastructure. Today, TOT is a reliable source of revenue for many cities. While state law does not set a maximum rate, any new tax or increase must be approved by voters.

In addition to TOT, municipalities often use Tourism Marketing Districts (TMDs), or Tourism Improvement Districts (TIDs), to assess lodging businesses for marketing and infrastructure efforts that increase room-night demand. In California, these districts are formed under the Property and Business Improvement District Law of 1994 and operate as benefit assessment districts, with revenues typically administered by a nonprofit entity providing services to participating hotels. Industry estimates suggest more than 90 such districts operate statewide.

The rapid growth of short-term rentals (STRs) through online platforms has also prompted cities to adopt regulatory frameworks that both manage community impacts and capture associated economic activity. At a high level, local governments are increasingly treating STRs as a form of transient lodging, applying taxes, fees, and operational requirements similar to traditional hotels. These policies are generally designed to ensure fair competition, generate public revenue, and create accountability in a largely decentralized marketplace, while balancing the benefits of expanded lodging options with the need for oversight and neighborhood stability.

City of Sacramento TOT

The City of Sacramento established its TOT in 1964 at a rate of four percent, with revenues deposited into a dedicated fund restricted to administering the tax and supporting the acquisition, construction, operation, and financing of convention and public assembly facilities. Throughout the 1970s, the City incrementally increased the tax rate while maintaining these use restrictions, including increases to six percent in 1974 and seven percent in 1976, followed by an additional three percent in 1978. During this period, the City consistently used TOT revenues to support convention-related infrastructure and financing, including the Sacramento Community Center, and began dedicating a portion of the additional 1978 tax increment to tourism promotion through the Sacramento Convention and Visitors Bureau. While a 1975 ordinance provided modest administrative flexibility, the overall framework continued to limit most revenues to tourism- and convention-related purposes.

In the late 1980s and early 1990s, the City adopted ordinances that significantly expanded the allowable use of TOT revenues. Beginning in 1989, incremental increases to the tax were directed to the City's General Fund for unrestricted municipal purposes, marking the first departure from the historically restricted use structure. Subsequent ordinances in 1990 and 1991 established a phased increase in the General Fund–directed portion of the tax, ultimately expanding it to two percent by 1994. These changes created a dual-purpose TOT structure in which earlier portions of the tax remained dedicated to tourism and convention-related uses, while later increments provided flexible funding for general City operations, including operating expenses, debt service, and financial reserves.

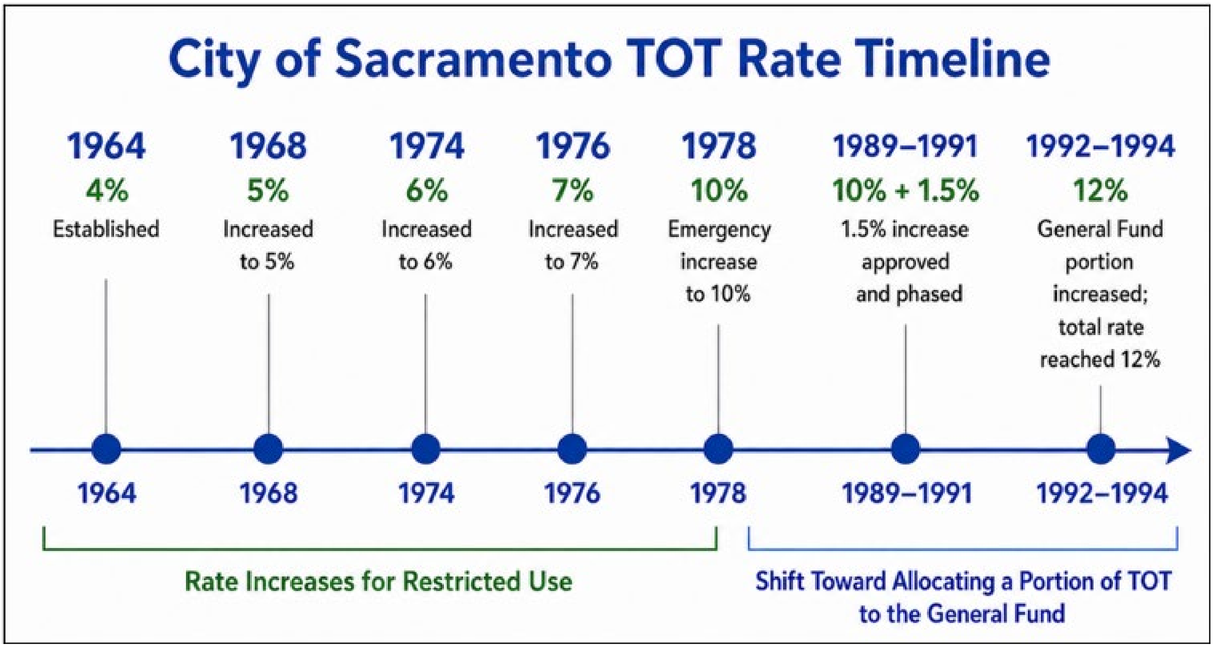
City voters have more recently expanded the scope of use of TOT revenues. Measure N (City of Sacramento Tourism and Economic Development Facilities) was passed by voters in November 2022. Measure N amended Sacramento City Code section 3.28.180, which specifies the allowable uses of TOT revenue. It expanded the eligible uses of the TOT special taxes to include "[e]conomic development projects to create local jobs," "visitor-serving facilities that promote tourism, economic development, and other activities that bolster the local economy," and "theatre and arts venues." Additionally, Measure N added a clause to expressly state that TOT special tax expenditures are subject to independent annual audits and full public disclosure as part of the City's annual external audit.

The City Code chapter sets parameters for allowable TOT expenditures. Specifically, City Code section 3.28.180 states that TOT special tax revenue "shall be used solely and exclusively for the following purposes:

1. Administration of the provisions of this chapter [3.28 Uniform Transient Occupancy Tax];
2. Economic development projects to create local jobs;
3. Acquisition, construction, completion, operation, repair and maintenance of visitor-serving facilities that promote tourism, economic development, and other activities that bolster the local economy, such as convention halls and centers; theatre and arts venues; public off-street parking facilities and related site improvements; lands, easements, rights-of-way, and other works, property, or structures, necessary or convenient for these facilities;
4. Expense in connection with proposals or proceedings for acquisition of the facilities referred to in subsection 3 of this section;
5. Interest and principal payments on bonds issued to acquire any of the facilities referred to in subsection 3 of this section;
6. Lease payments for lease of any of the facilities referred to in subsection 3 of this section."

In summary, the City of Sacramento's TOT framework reflects a historically tourism-focused funding structure that has gradually evolved to incorporate a limited degree of fiscal flexibility. While policy changes beginning in the late 1980s introduced the ability to allocate a portion of revenues to the General Fund, the majority of TOT revenues remain restricted to designated uses supporting tourism, convention facilities, and related economic development activities. More recent updates have modestly expanded allowable uses while reinforcing transparency and accountability requirements. Overall, the structure continues to prioritize dedicated, purpose-driven funding, with only a relatively small share available for general municipal operations. The figure below illustrates these developments.

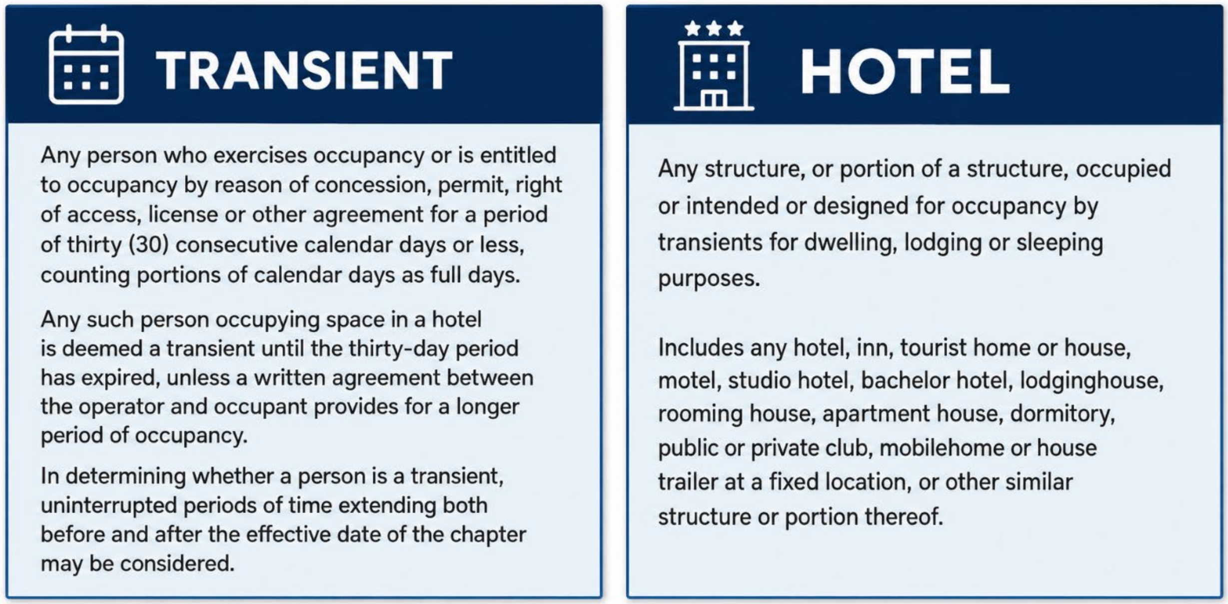
Figure 1: City of Sacramento Transient Occupancy Tax Rate Timeline



Source: Auditor generated based on Sacramento City Code Chapter 3.28.

Today, a TOT rate of 12 percent is charged for all people who exercise occupancy at a hotel in the City of Sacramento. City Code chapter 3.28 Uniform Transient Occupancy Tax provides key definitions for the purposes of the TOT, such as what qualifies as a "hotel" and the time period considered to be "transient." As seen in the figure below, the TOT applies to a variety of lodging establishments for persons staying 30 consecutive calendar days or less.

Figure 2: Transient Occupancy Tax Key Definitions



Source: Sacramento City Code Section 3.28.020.

As structured today, the TOT reflects a policy framework that captures revenue from short-term occupancy activity in a comprehensive and administratively standardized manner, supporting the City's ongoing fiscal and operational needs.

Visitor Lodging Assessments

In addition to taxes, hotels and transients in the City also pay a series of assessments for each lodging night levied as part of the TMD. TMDs are a modern form of Business Improvement District that allow lodging businesses to jointly fund marketing efforts to increase room-night demand. In California, TMDs are created under the Property and Business Improvement District Law of 1994 and operate as benefit assessment districts within defined areas. Unlike other assessment districts, TMD revenues are returned to a private nonprofit entity that administers the district and provides marketing and promotional services for participating lodging businesses.

Sacramento Tourism Marketing District

Sacramento Tourism Marketing District 2024-01 (STMD) was initially established in 2012 under the Property and Business Improvement District Law of 1994. The Sacramento Tourism Marketing District (STMD) was renewed for 10 years on July 1, 2024.

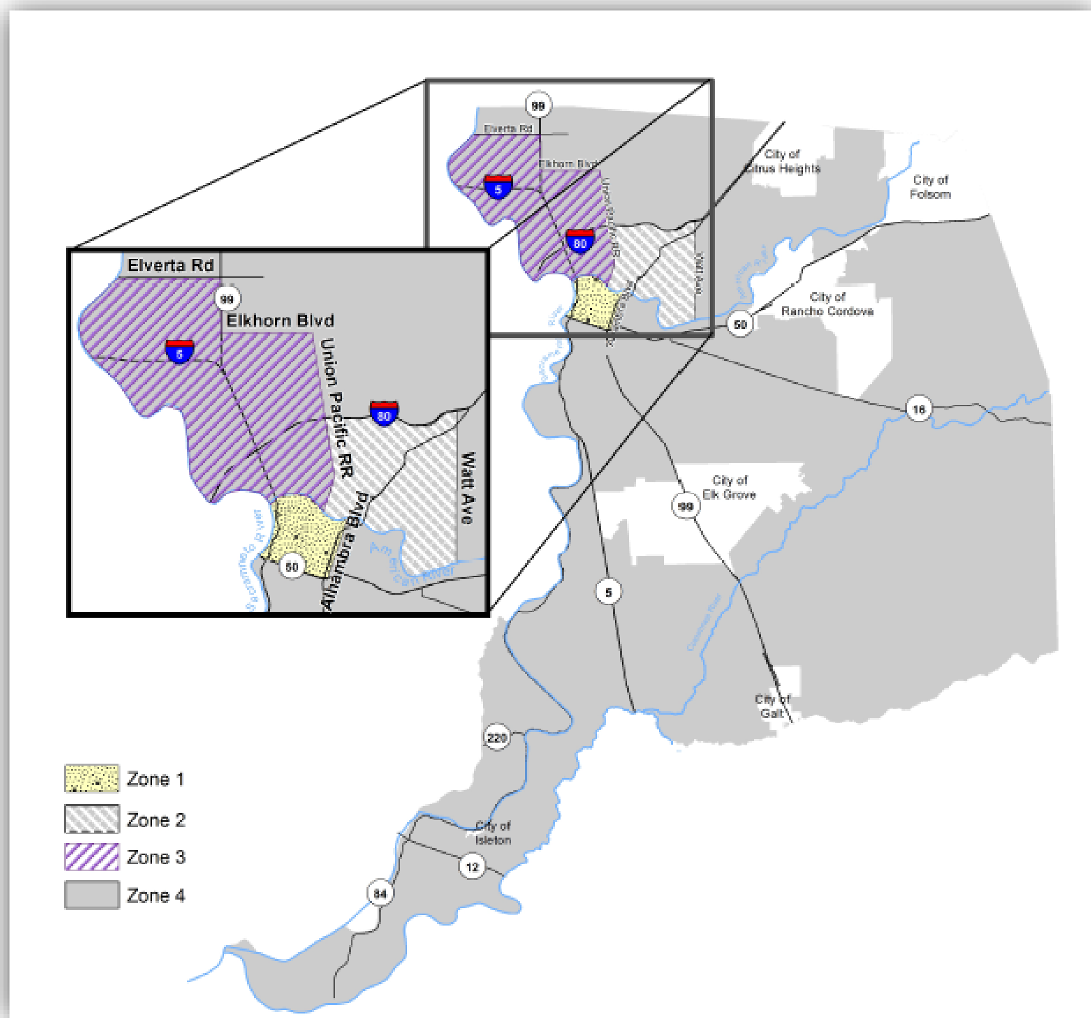
The annual assessment for each zone is as follows: Zone 1: 3.45 percent, Zone 2: 2.875 percent, Zone 3: 2.30 percent, and Zone 4: 1.15 percent. STMD is divided into four (4) benefit zones, based on the special benefits and privileges granted to lodging businesses in each zone.

- Zone 1: Includes Old Town, Downtown, and Midtown Sacramento. The western boundary is the Sacramento River; the northern boundary is the American River; the eastern boundary is Alhambra Boulevard; and the southern boundary is Highway 50.

- Zone 2: Includes Noralto, Del Paso Heights, and the western portion of Arden Arcade. The western boundary is the Union Pacific Railroad; the northern boundary is Interstate 80; the eastern boundary is Watt Avenue; and the southern boundary is the American River.
- Zone 3: Includes Gardenland, South Natomas, North Sacramento, North Natomas, and the Sacramento International Airport. The western boundary is the Sacramento River; the northern boundary is W Elverta Road between Garden Highway and Highway 99, Highway 99 between W Elverta Road and W Elkhorn Boulevard, and W Elkhorn Boulevard between Highway 99 and the Union Pacific Railroad; the eastern boundary is the Union Pacific Railroad; and the southern boundary is the American River.
- Zone 4: Includes all remaining areas of the City and County of Sacramento. Zone 4 does not include the cities of Isleton, Galt, Elk Grove, Rancho Cordova, Citrus Heights, and Folsom.

The figure below illustrates the zones in the City.

Figure 3: Sacramento Tourism Marketing District Assessment Zones



Source: Sacramento Tourism Marketing District: Management District Plan.

Annually, the governing body of the STMD may increase the assessment rate incrementally, up to the maximum allowable rates for each zone as follows: the assessment rate in Zone 1 shall not exceed 4 percent; the assessment rate in Zone 2 shall not exceed 3.33 percent; the assessment rate in Zone 3 shall not exceed 2.66 percent; and the assessment rate in Zone 4 shall not exceed 1.33 percent, as detailed in the Management District Plan.

Sacramento Tourism Infrastructure District

On June 7, 2018, the City Council approved the formation of the Sacramento Tourism Infrastructure District (STID), an assessment district created under the Property and Business Improvement District Law of 1994 to fund tourism-related capital improvements and, if funding allows, marketing efforts to increase hotel room nights. The STID primarily supports construction of a ballroom at the SAFE Credit Union Convention Center and related infrastructure. The District assesses lodging businesses one percent of gross short-term room rental revenue and applies to all current and future lodging businesses within the City of Sacramento and portions of unincorporated Sacramento County.

Short-Term Rentals

STR platforms have significantly expanded the lodging industry by enabling property owners to rent residential properties for short-term stays. As STR activity has increased, local governments have developed regulatory frameworks to address issues such as neighborhood impacts, public safety, and tax compliance.

Short-Term Rental Regulations

Beginning in 2016, the City formally legalized STR activity and clarified that such uses are a form of transient lodging subject to business operations taxes and a 12 percent Transient Occupancy Tax.[1] The initial framework established a two-tier approach: small-scale STRs are permitted ministerially with defined operational limits—such as a six-guest maximum and restrictions on non-primary residence use—while larger or more intensive lodging uses remain subject to discretionary approval through a Conditional Use Permit.

Subsequent ordinances expanded and strengthened this framework by requiring annual, non-transferable permits, property owner consent, and adherence to operational standards designed to protect public health and neighborhood character. The City also enhanced transparency and accountability by requiring permit posting, inclusion of permit numbers in advertisements, and maintenance of detailed rental records subject to City review. Enforcement authority was significantly expanded, allowing the City to suspend, revoke, or condition permits for noncompliance.

Later updates clarified key eligibility requirements, including defining a primary residence as one occupied at least 184 days per year, limiting STRs to one unit per lot (with narrow exceptions), and requiring compliance with private land use restrictions. The City further strengthened enforcement by imposing obligations on hosting platforms, including prohibiting bookings for unpermitted units and requiring platforms to collect and remit Transient Occupancy Tax.

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[1] The Sacramento City Council approved Ordinance No. 2016-004 on January 19, 2016.

More recent policy changes have focused on limiting the expansion and commercial intensity of STRs.[2] These include prohibiting STR use in units created under Senate Bill 9[3] and imposing a 90-day annual cap on non-owner-occupied rentals. Additionally, STRs have been more fully integrated into the City's tourism funding structure through requirements to collect and remit Tourism Marketing District and Tourism Infrastructure District assessments.

These ordinance changes have been incorporated into Sacramento City Code Chapter 5.114 which establishes the City's permitting and operating requirements for short-term rentals, including permitting, operating, advertising, and recordkeeping requirements. Chapter 5.114 also establishes requirements intended to support the City's oversight of STR activity and related tax obligations. These include requirements for operators to obtain annual permits, maintain rental records, and include permit numbers in advertisements. The chapter also places certain responsibilities on hosting platforms, including restrictions related to unpermitted rentals and requirements associated with the collection and remittance of applicable TOT.

Overall, Sacramento's STR framework reflects a deliberate policy approach that permits limited residential STR activity while imposing clear operational limits, strengthening enforcement mechanisms, and aligning STRs more closely with traditional lodging providers in both regulatory treatment and financial obligations.

Short-Term Rental Tax Requirements

Like hotels and other lodging providers, STR operators are required to collect and remit applicable TOT for stays occurring within the City. STR operators may also be subject to Tourism Marketing District and Tourism Infrastructure District assessments.

Compliance with TOT requirements depends on the City's ability to identify lodging operators subject to tax obligations and ensure required remittances are received.

Hosting Platform Agreements and Tax Collection

The growth of STR activity has largely occurred through online hosting platforms such as Airbnb and Vrbo. To facilitate tax collection, many jurisdictions have passed legislation or entered into agreements with hosting platforms that allow taxes to be collected and remitted directly by the platform on behalf of operators. The Sacramento City Code, for example, provides that hosting platforms are responsible for collecting and remitting transient occupancy tax to the City for booking transactions and maintaining records for City inspection.

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[2] In December 2021, the City Council approved Ordinance No. 2021-0035, which prohibits short-term rentals in dwelling units created under Senate Bill 9 (SB 9). Additionally, the City Council approved Ordinance No. 2024-0007 in April 2024 which strengthens the City's STR regulation by, in part, limiting operational intensity and expanding financial obligations to align more closely with the hotel sector.

[3] Approved by the Governor on September 16, 2021, Senate Bill 9 (SB 9) increases housing opportunities by allowing urban lot splits on eligible single-family lots.

In September 2017, the City entered into an agreement with Airbnb establishing procedures for the collection and remittance of TOT associated with reservations booked through the platform. Under the agreement, Airbnb collects applicable taxes from guests and remits those amounts directly to the City in aggregate, rather than providing payments separately by reservation or property.

TOT Expenditures

As discussed previously, the majority (10 percentage points) of TOT revenue is restricted. The City places these funds into the Community Center Fund for eligible expenses. The expenditures from the Community Center Fund are managed by the Convention and Cultural Services Department (CCS), which uses the revenue in the Community Center Fund to support the Department's activities and to support organizations centered around tourism. The mission of CCS is "to promote and preserve our unique culture and heritage by delivering accessible arts, leisure and educational experiences to enrich people's lives and enhance the metropolitan area."

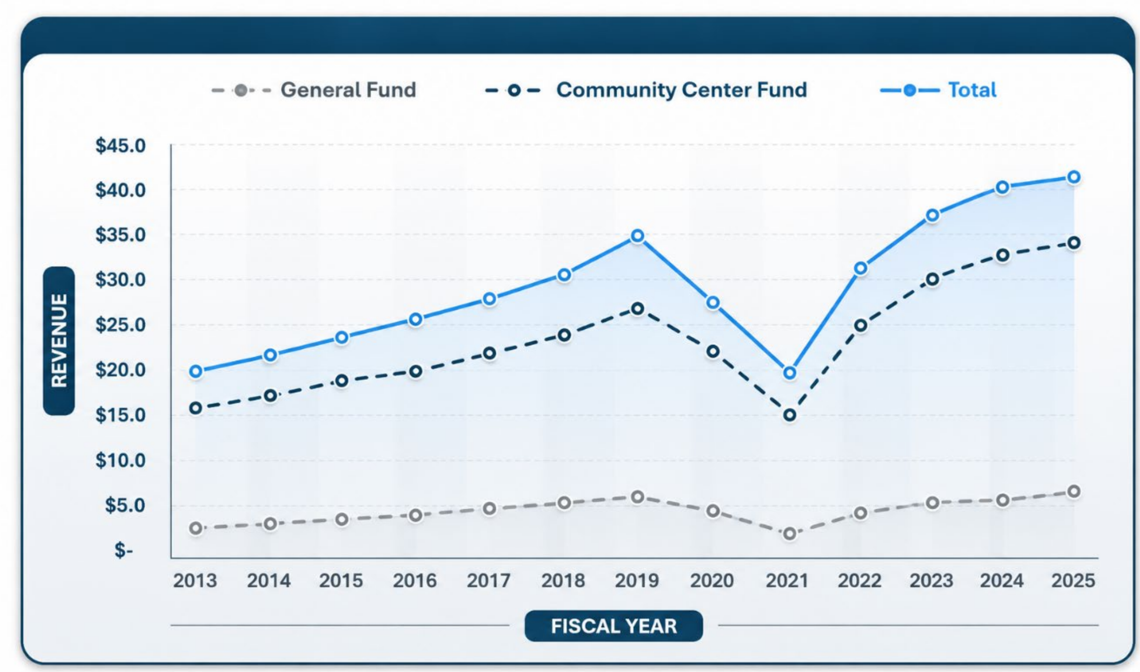
The City does not track TOT expenditures separately from other revenue sources in the Community Center Fund. Accordingly, the City cannot readily identify which individual expenditures were funded specifically by TOT revenue.

TOT Revenue

As stated previously, TOT revenues are divided between the Community Center Fund (10 percentage points) and the General Fund (2 percentage points). TOT Revenue had been increasing prior to the pandemic. In Fiscal Year 2012/2013 (FY 2012/13) total TOT revenue was $19.9 million. Total TOT revenue rose to more than $35 million in FY 2018/19. However, along with other state and local agencies across the country, Sacramento faced extraordinary challenges due to the COVID-19 pandemic, which adversely affected TOT revenues.[4] Total TOT revenue fell to a 10-year low of $18.6 million in FY 2020/21. As Figure 4 further illustrates, revenue subsequently rebounded to pre-pandemic levels by FY 2022/23 and continued upward to $40.6 million in FY 2023/24.

[4] The County of Sacramento issued a directive ordering all individuals living in the county to stay-at-home, except for essential activities, to help prevent the spread of COVID-19. The order stayed in place throughout 2020 and was lifted in June 2021.

Figure 4: Transient Occupancy Tax (TOT) Revenue (in millions)



Source: Auditor generated based on City of Sacramento annual budget reports.

Revenues from the Transient Occupancy Tax have significantly rebounded since the pandemic-related downturn. This improvement is important because TOT revenue is one of the primary sources of funding for the Community Center Fund, accounting for more than 77 percent of budgeted revenues in FY 2024/2025.

Revenue Bonds

The City Code allows for the issuance of bonds to support projects eligible for TOT funding. The Office of the City Treasurer is responsible for the issuance and management of City debt, including the revenue bonds that are associated with TOT. The City issued TOT Revenue Bonds in 2018 to finance the cost of renovating the City's Convention Center, Community Center Theater, and Memorial Auditorium, as well as other projects eligible for TOT funding. The financing plan for the project called for issuing three series of revenue bonds not to exceed $350 million. The issued amounts were just over $280 million in three series.

Revenue Collection Process

The Department of Finance's Revenue Division is the primary department responsible for TOT revenue collection. The Revenue Division is broken up into three different groups: Revenue Services, Business Permits and Taxes, and Receivables and Collections. The different Revenue Division groups monitor specific revenue sources. Revenue Services is the primary group responsible for administering the City's TOT revenue collection process, with other areas of the Revenue Division providing support for activities such as collections and short-term rental management. The Business Permits and Taxes division is responsible for the Business Operations Tax and short-term rental permits among others. The Receivables and Collections group is the centralized collection group for the City.

Policies and Procedures

The City of Sacramento has established policies related to revenue collection processes. For TOT, the City also maintains collection procedures that address the receipt and processing of payments submitted directly by lodging operators. Certain hosting-platform agreements establish a different collection and remittance approach. For example, Airbnb collects TOT on behalf of covered hosts and remits the taxes to the City in aggregate without providing property-level information.

Collections for Hotels

The City's *Cash Handling Policy* provides guidelines for handling payments received by City departments for payment of a City debt, deposit, tax, or fee for service. The policy provides information about how and when to collect and secure payments in accordance with legal and policy requirements. It is the City's policy that all revenue collection processes be performed within delegated scopes of authority and in compliance with all federal, state, and City codes, regulations, policies and generally accepted accounting principles.

The Revenue Services Division has a four-step procedure for TOT revenue collection and processing:

Step 1: The Revenue Services Division collects TOT from approximately 80 lodging businesses. Most of these entities remit a monthly statement and check by mail. Information in the monthly statements includes lodging name, address, reporting month and year, and calculation of TOT owed plus any applicable penalties and interest. Some hotels pay online through the HdL Prime system.[5]

Step 2: This step involves processing TOT payments. The Revenue Services Division matches statements with remittance checks for processing. For check payments, the cashier enters the statement details into the HdL Prime system, which assesses any applicable late fees or penalties. An invoice is then generated in HdL Prime, and the cashier processes the check in the cashiering system. TOT revenues are recorded to the Community Center Fund. Statements are then returned along with validation receipts[6] to the Program Manager.

Step 3: Once each month, the Program Manager updates and reconciles the TOT tracking spreadsheet with the statements received during the prior month.

Step 4: This step involves the transfer of TOT revenues. Because part of TOT revenues are dedicated to the General Fund, that portion of TOT revenues must be transferred from the Community Center Fund and the General Fund. Each

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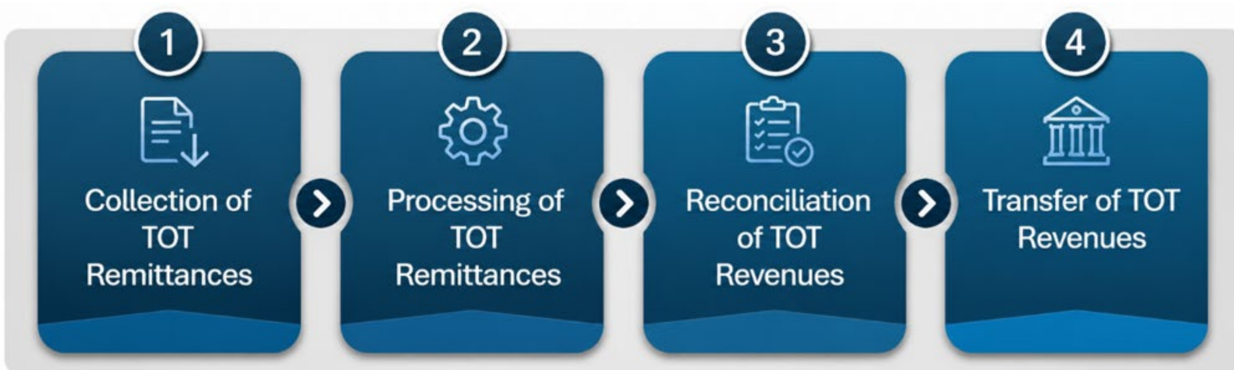
[5] HdL Prime is a tax administration system used by the City to process, record, and track certain types of tax payments.

[6] A validation receipt is printed by the cashiering system at the time the payment is processed. It includes, at minimum, the date, transaction number, payment type, and amount.

month 2 percentage points of the 12 percent TOT rate collected (or 16.67 percent of the monthly revenue received) is transferred via accounting journal from the Community Center Fund to the General Fund.

Figure 5 illustrates a high-level flowchart of the Revenue Services Division's TOT revenue collection process.

Figure 5: Transient Occupancy Tax (TOT) Revenue Collection Process



Source: Auditor generated based on information provided by the Revenue Services Division.

In summary, the City's TOT revenue collection process reflects a structured approach to capturing lodging-related revenues through established policies, standardized procedures, and defined internal controls. While the process is largely consistent across traditional lodging providers and short-term rentals, the involvement of third-party platforms adds another component to the collection and remittance process for many short-term rental transactions. The overall framework describes the collection, processing, and allocation of revenues to the Community Center Fund and General Fund.

<u>Collections from Short Term Rental Host Platforms and Owners</u>

Short-term rentals operating within the City are also subject to the TOT requirements established in City Code chapter 3.28. Unlike traditional hotels, however, short-term rental activity is commonly facilitated through third-party host platforms such as Airbnb, Vrbo, Expedia, and other online marketplace providers. These platforms allow property owners or operators to advertise and rent lodging accommodations for periods of 30 days or less.

The City's collection process for short term rental related TOT differs from the traditional hotel collection process because remittances are frequently submitted by host platforms on behalf of multiple operators rather than by individual property owners. In these instances, host platforms generally submit aggregate remittance payments and summary statements identifying the total taxable rent collected within the City during the reporting period. According to Revenue Services Division staff, the City currently receives remittances from several major host platforms; however, the City does not routinely receive property-level or transaction-level detail associated with the underlying rentals.

In addition to platform-collected remittances, some STR operators remit TOT directly to the City. These operators are responsible for obtaining the required permits, reporting taxable rental activity, and submitting applicable taxes in accordance with City requirements. Revenue Services Division staff indicated that STR remittances are processed similarly to hotel remittances, including cashiering procedures, and reconciliation activities.

Auditing TOT Remittances from Operators

The City has established policies related to auditing entities remitting TOT. However, the City's auditing practices differ between hotel operators and short-term rental operators. While the City has used contracted audit services to review TOT remittances from hotels, auditing procedures for short-term rental hosting platforms such as Airbnb, and individual STR operators have not been comprehensively developed or implemented.

The Finance Department contracts with Muni Services, LLC (Avenu Insights) to perform revenue enhancement and administration oversight. Under a 2019 contract, the City provided Avenu Insights with a list of hotels subject to Transient Occupancy Tax requirements. Avenu Insights assessed and ranked the hotels based on risk and conducted compliance audits of selected hotels in batches. The audits included small, medium, and large hotels and generally covered periods between 2016 and 2019.

Short-term rental hosting platforms and individual STR operators are responsible for remitting applicable TOT. As discussed in the Findings below, the City currently relies on reported information in verifying remittance amounts.

Objective, Scope, and Methodology

The objective of this audit was to evaluate the City's administration and oversight of the Transient Occupancy Tax (TOT). Specifically, we sought to determine whether the City appropriately tracks, accounts for, and expends TOT revenues; identifies lodging businesses and short-term rentals subject to TOT; and has effective processes to ensure applicable taxes are accurately reported and remitted. We also compared the City's short-term rental oversight practices with those of selected California jurisdictions.

The audit generally examined activities occurring during Fiscal Years 2022/23 through 2024/25. We reviewed earlier information when necessary to understand the history of the City's TOT requirements, revenue restrictions, contracts, and short-term rental oversight practices.

Our audit focused on the City's administration, collection, monitoring, and use of Transient Occupancy Tax revenues during the period reviewed. Although the background section discusses the Sacramento Tourism Infrastructure District (STID) and Sacramento Tourism Marketing District (STMD) assessments to provide readers with context regarding the taxes and assessments imposed on transient lodging, our audit did not include a review or assessment of STID or STMD. As part of this audit, we interviewed City staff responsible for administering, accounting for, budgeting, and expending TOT revenues. We reviewed applicable City Code provisions, voter-approved measures, ordinances, policies, procedures, budget documents, accounting records, contracts, invoices, and other supporting documentation.

To evaluate restricted TOT expenditures, we reviewed selected Community Center Fund expenditures and compared them with applicable City Code requirements. To evaluate the completeness and reliability of the Revenue Services Division's lodging and remittance records, we reviewed hotel inventory procedures and tested 12 months of Fiscal Year 2024/25 remittance activity for a judgmental sample of 15 lodging facilities.

We also reviewed the City's contracts and records related to lodging tax auditing and short-term rental monitoring services. To evaluate short-term rental oversight, we reviewed permit and remittance records, hosting platform agreements, and selected online listings. We also performed limited online research to identify additional hosting platforms advertising properties in the City and reviewed selected listings to determine whether displayed taxes and assessments appeared consistent with City requirements.

As part of our benchmarking, we reviewed publicly available information and interviewed representatives from selected California jurisdictions regarding short-term rental identification, platform reporting, tax remittance responsibilities, permit requirements, and the use of third-party monitoring services.

During the audit, we identified a potential internal control matter outside the audit scope and communicated it separately to Revenue Services Division management.

The audit team used generative AI tools to improve the clarity and readability of report language and to assist in the creation of figures. Audit staff reviewed all AI-assisted content to ensure it accurately reflected the audit evidence and conclusions.

Finding 1: The City's Transient Occupancy Tax Code Appears More Restrictive on the Use of Remittances Than Those of Benchmarked California Cities.

The Transient Occupancy Tax (TOT) was originally designed to compensate local governments for the increased public service costs incurred by serving local tourists. In the City of Sacramento, the majority of TOT revenue is legally restricted for specified purposes and is not available for general governmental use. Restricted-use budgeting can create meaningful fiscal constraints during periods of economic stress. As a result, during periods of significant General Fund deficits, the City's ability to redirect these revenues to support core services, such as police, fire, and parks, is limited. This can require policymakers to make service reductions or identify alternative revenue sources, even while restricted funds remain available for their designated uses.

Although Measure N expanded the allowable uses of a portion of TOT revenue, these funds remain restricted and cannot be broadly applied to close General Fund shortfalls. While the expanded uses may provide indirect, long-term fiscal benefits by supporting economic development and increasing future tax revenues, they may not address immediate budgetary pressures. Accordingly, the City's reliance on restricted-use revenues contributes to a degree of fiscal rigidity, limiting flexibility to respond to changing economic conditions and shifting service demands.

We performed benchmarking against ten cities in California that collect TOT revenue to determine whether similar restrictions were enacted. We found significant variation in both tax rates and the degree to which revenues are restricted for specific purposes such as tourism promotion, arts and cultural funding, or general governmental use. While some jurisdictions, such as Oakland and Bakersfield, treat TOT largely as unrestricted general revenue, others, including San Diego and San Francisco, impose varying levels of earmarks that dedicate substantial portions of revenue to targeted uses.

In certain cases, these restrictions may limit fiscal flexibility, particularly during periods of economic stress, while in others, local policies or budget practices further shape how funds are ultimately distributed. This variation highlights the policy tradeoffs between dedicated funding for economic development and maintaining discretion to support broader municipal priorities.

Transient Occupancy Tax Restrictions and Policy Evolution

Since its establishment in 1964, the City of Sacramento's TOT has been intentionally structured as a restricted-use revenue source, reflecting a policy objective to reinvest visitor-generated revenues into tourism, convention infrastructure, and related economic activity. The original ordinance imposed a four percent tax and required that all proceeds be placed in a dedicated fund to support the administration of the tax and the acquisition, construction, and operation of convention and public assembly facilities, thereby ensuring that funds generated by visitors were used to promote and sustain the visitor economy rather than general governmental purposes. Throughout the 1970s, the City increased the tax rate while maintaining these restrictions and, in some cases, further committed revenues to specific obligations, including financing for the Sacramento Community Center through bond-supported agreements.

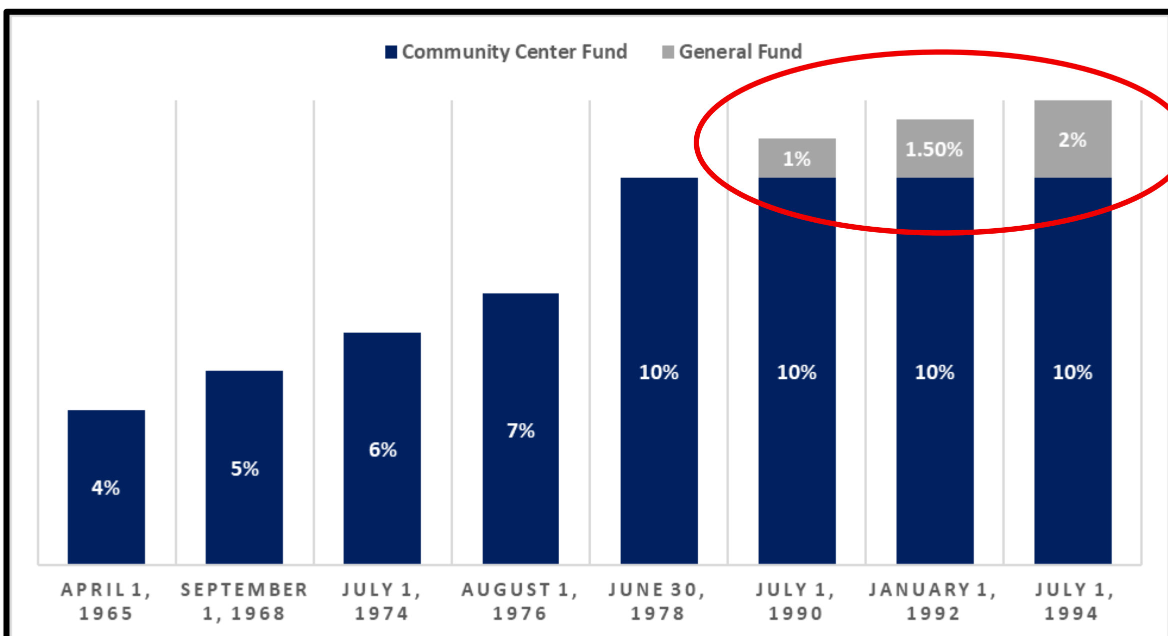
Although a 1975 ordinance introduced modest administrative flexibility, the core intent, to dedicate TOT revenues to tourism- and convention-related uses, remained unchanged.

Beginning in 1978, the City refined this approach by earmarking portions of new tax increments to directly support tourism promotion, including establishing a dedicated funding stream for the Sacramento Convention and Visitors Bureau, later enhanced with inflation-adjusted allocations and support for related economic development organizations. A notable policy shift occurred in the late 1980s and early 1990s, when the City introduced a General Fund component, directing incremental portions of the tax, eventually up to two percent, toward unrestricted municipal purposes such as operations, debt service, and reserves.

More recently, the City Council unanimously approved placing a proposition on the November 2022 ballot to voters to ensure the TOT can be used not for the General Fund, but for anything that helps attract more tourism and build more hotels. Voters approved the proposition, titled Measure N, which expanded allowable uses of restricted TOT revenues to include broader economic development initiatives, such as job creation and visitor-serving facilities, while maintaining the underlying framework of designated uses tied to economic activity.

Despite these changes, the majority of TOT revenues remain restricted, consistent with the City's longstanding policy intent to use visitor-generated funds to support tourism and economic development. While this approach promotes reinvestment in the local economy and aligns funding sources with their intended beneficiaries, it also limits the City's fiscal flexibility to reallocate revenues to core services or respond to changing budgetary conditions. The figure below shows how the portions of the City's TOT allocated to the General Fund and restricted purposes have changed over time.

Figure 6: Transient Occupancy Tax Rate Over Time



Source: Auditor generated based on Sacramento City Code and Ordinances.

The City's Transient Occupancy Tax structure has been primarily oriented toward tourism and convention-related purposes, with the majority of revenues restricted to supporting tourism infrastructure and promotion.

Peer Comparison of Transient Occupancy Tax Rates

The TOT rate in Sacramento can be analyzed with a peer benchmark group to understand how Sacramento's rate compares to similarly sized California cities. We selected the nine California cities closest[7] in population to Sacramento as our peer benchmark group; this includes Los Angeles, San Diego, San Jose, San Francisco, Fresno, Long Beach, Oakland, Bakersfield, and Anaheim. As seen in the figure below, the range of current TOT rates among the peer benchmark group is between 10 percent and 15 percent. Within the peer benchmark group, five cities have TOT rates higher than Sacramento, two cities have the same rate, and one city has a lower rate. San Diego's rate varies by geographic zone, with rates both above and below Sacramento's 12 percent rate.

Figure 7: Transient Occupancy Tax Rate Benchmark

City	TOT (percent)	Population
Anaheim	15	341,773
Los Angeles	14	3,835,263
San Francisco	14	842,027
Oakland	14	426,457
San Diego	11.75–13.75*	1,408,937
Long Beach	13	462,561
Fresno	12	557,032
Sacramento	**12**	**527,979**
Bakersfield	12	419,238
San Jose	10	979,415

Source: Auditor generated from publicly available information on peer benchmark city websites.
Note: *San Diego's applicable TOT rate varies by geographic zone within the city.

Sacramento's TOT rate of 12 percent is generally aligned with peer cities, falling within the lower range of comparable California jurisdictions. While a majority of peer cities impose higher rates, Sacramento's rate remains competitive and consistent with benchmarked municipalities.

[7] According to the most recent Demographic Report from the California Department of Finance, Sacramento is the 6th largest city in the state. This report uses the five cities that have a greater population and four cities with smaller population for the benchmark group.

Peer Comparison of Hotel Assessments

As mentioned in the Background section of this report, cities may also charge hotel assessments for tourism marketing districts and tourism infrastructure districts. The additional hotel assessments in Sacramento can be analyzed with a peer benchmark group to understand how Sacramento's total tax and assessment rates compare to similarly sized California cities. Like the TOT comparisons, we used the same California cities closest in population to Sacramento as our peer benchmark group. As seen in the figure below, the range of total assessment rates among the peer benchmark group is between 12 percent and 17 percent.

Figure 8: Hotel Tax and Assessments Rate Benchmark

City	Assessment (%)	TOT (%)	Total Assessment (%)
San Francisco	2.3125 – 3.5*	14	16.3125 – 17.5
Anaheim	2	15	17
Sacramento	2.15 – 4.45*	12	14.15 – 16.45
Los Angeles	2	14	16
Oakland	2	14	16
Long Beach	3	13	16
San Diego	2	11.75 – 13.75*	13.75 – 15.75
Fresno	2	12	14
San Jose	4**	10	14
Bakersfield	0	12	12

Source: Auditor generated based on publicly available information on peer benchmark city websites.
Note: *Applicable rate varies by geographic zone within the city.
**San Jose also imposes a fixed-dollar Hotel Business Improvement District assessment ranging from $1.00 to $3.00, depending on the applicable zone. This amount is not included in the percentage-based total shown.

Sacramento's combined transient occupancy tax and tourism-related assessments rank among the highest in its peer group, with relatively elevated TMD and TID assessments contributing to a higher overall lodging burden despite a mid-range base TOT rate. Collectively, these layered charges increase the total amount assessed per hotel room.

Benchmark of Transient Occupancy Tax Restrictions

Comparing Sacramento with California's other large cities provides context for understanding how the restrictions on the City's TOT revenues compare with those of peer jurisdictions. Across the cities reviewed, TOT structures vary significantly in the degree to which revenues are legally or administratively restricted. Some cities, such as San José and San Diego, explicitly dedicate portions of TOT revenues to tourism-related purposes (e.g., convention and visitor activities), while also allowing a defined share for general governmental use. Others, including Los Angeles, Oakland, Bakersfield, and Anaheim, impose TOT with little or no legal restrictions in code, though some apply administrative allocations or debt pledges through budget policy. Still others, such as San Francisco and Fresno, earmark specific portions of revenue for targeted uses like cultural programs or convention facilities. Overall, the landscape reflects a mix of fully restricted, partially restricted, and largely unrestricted TOT frameworks, with restrictions implemented through both legal provisions and policy decisions.

Figure 9: Benchmark City comparisons

City	TOT Rate	Restricted Amount (Approx)	Restricted Description
City of Sacramento	12%	10%	TOT revenues were originally 100 percent restricted to tourism and convention-related uses, but by 1994, 2 percent was made unrestricted for General Fund purposes, leaving 10 percent restricted and 2 percent unrestricted under a dual-use structure.
City of San Diego	13.75% (highest zone)	9%	TOT is allocated as follows: two-thirds is restricted to tourism promotion (subject to temporary suspension during revenue shortfalls). One-sixth allocated to the Transient Occupancy Tax Fund and used by City Council for any purpose, and one-sixth deposited in the General Fund for Council allocation.
City of San Jose	10%	6%	The San Jose City Charter requires 6 percent tax that must be used to fund San José's convention and visitors bureau, cultural grant and fine arts programs, and the City's operating subsidies for convention and cultural facilities.
City of Fresno	12%	6%	The City of Fresno imposes a 12 percent Transient Occupancy Tax, with 50 percent of revenues dedicated to the Convention Center Fund under a 1964 joint powers agreement.
City of Long Beach	13%	6%	The City of Long Beach TOT rate includes a 6 percent tax on guestroom rent is collected to fund the City's special advertising and promotion fund.
City of Oakland	14%	3%	In Oakland, the Transient Occupancy Tax is 14 percent, with 3 percent (Measure C) restricted to cultural and community uses and held in a separate fund.
City of Anaheim	15%	3%	In Anaheim, the Transient Occupancy Tax has no legal spending restrictions, but 3 percent is pledged to Anaheim Resort improvements (debt service).
City of Los Angeles	14%	2%	The 14 percent TOT is not legally restricted by code, but is administratively allocated through the budget, with 1 percent directed to the tourism bureau, 13 percent to the General Fund, and 1 percent of General Fund revenues further appropriated for arts and cultural purposes.
City and County of San Francisco	14%	1.5%	A total of 1.5 percent of the hotel TOT is deposited into the Hotel Room Tax Fund and restricted to cultural purposes (e.g., arts organizations, cultural programs, and facilities), with unused funds carried forward and a portion reserved for refunds
City of Bakersfield	12%	0%	No restrictions.

Source: Auditor generated from publicly available information on peer benchmark city websites.

Sacramento stands out among peer cities for maintaining a comparatively high level of restricted TOT revenues, with approximately 10 percent dedicated to tourism-related uses.[8] This is greater than most cities such as San Jose, Fresno, and Long Beach, which each restrict about 6 percent, and significantly more than cities like Oakland or Anaheim with only 3 percent restricted. While some cities such as Los Angeles and San Francisco rely more on administrative or minimal restrictions, Sacramento's structure reflects a stronger and more formalized commitment to restricted-use funding, limiting fiscal flexibility relative to its peers. The closest benchmark is the City of San Diego, that restricts 9 percent to tourism-related spending but allows the City Council to override the restriction upon making specified findings related to a budget deficit.

Despite the expansion of allowable uses under Measure N, the majority of Sacramento's TOT revenue remains legally restricted. As a result, these funds cannot be redirected to support core municipal services such as police, fire, parks maintenance, or general operations, even during periods of fiscal emergency. At the same time, core services rely primarily on unrestricted revenues, which are often the most affected during economic downturns. As a result, the City may need to consider reductions to essential services because restricted TOT funds are available only for purposes that cannot address General Fund shortfalls.

The City's TOT framework reflects a policy choice to dedicate revenue to tourism-related economic development and visitor-serving purposes. Compared with most benchmark cities, Sacramento places greater restrictions on how TOT revenue may be used, directing funds toward activities such as job creation, tourism, and visitor-serving facilities while maintaining a clear framework linking expenditures to economic activity. Because the tax was originally intended to help offset the costs local governments incur in providing services to visitors, many of the benchmark jurisdictions we reviewed permit a larger share of TOT revenue to be used for general governmental purposes or allow elected officials to temporarily override spending restrictions during periods of fiscal stress. Sacramento's current approach emphasizes dedicated uses established by voters. Any future changes to the allocation or allowable uses of TOT revenue would require voter approval through a ballot measure.

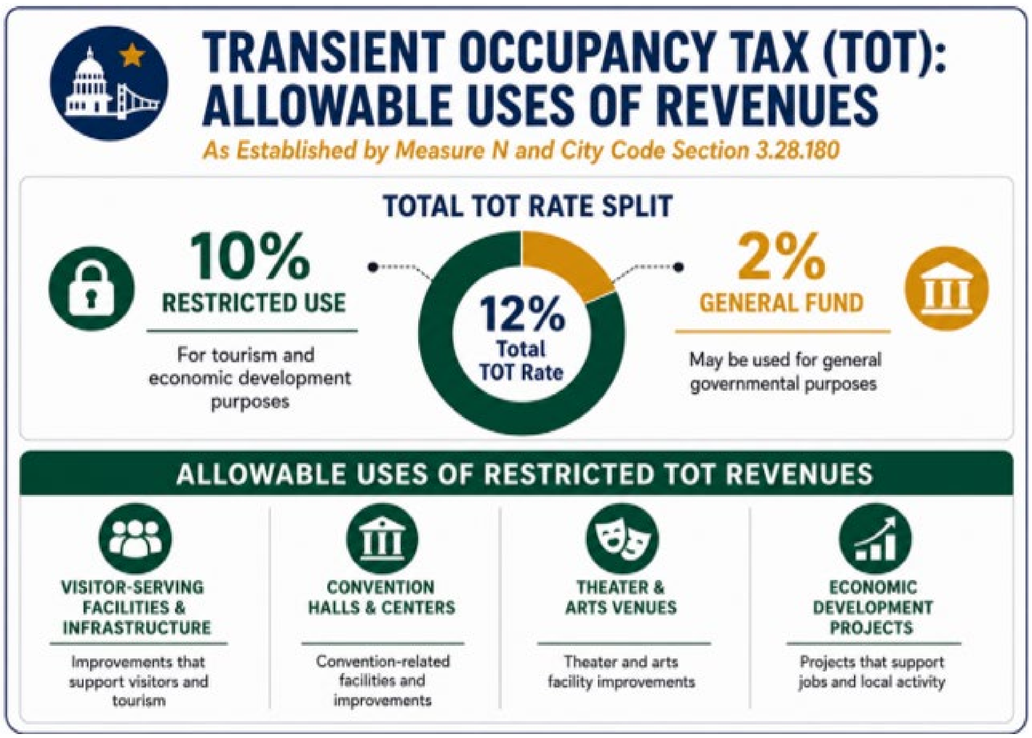
[8] As described in the Background section, the City's total assessment on transients can be up to 16.45 percent, which includes up to 3.45 percent additional assessment for the Transient Marketing District and 1 percent for the Tourism Infrastructure District. These assessments are charged to transient stays in the City and the use is restricted to funding tourism-related capital improvements and marketing efforts to increase hotel room nights. As a result, in total, up to 14.45 percent of the 16.45 percent TOT related assessments are restricted to tourism-related economic development projects.

Finding 2: The City Appropriately Used Restricted Transient Occupancy Tax Revenues in Accordance with Sacramento City Code Requirements.

Measure N amended Sacramento City Code section 3.28.180 to establish restrictions on the use of a portion of Transient Occupancy Tax (TOT) revenues. Although the City collects TOT as a tax on transient lodging, City Code distinguishes between the portion of TOT revenue that may be used for general governmental purposes and the portion that is restricted for tourism and economic-development purposes.

As illustrated in Figure 10 below, restricted TOT revenues must be used for purposes that support tourism and economic development, including visitor-serving facilities and infrastructure, convention facilities, theater and arts venues, and economic development projects that promote job creation and local economic activity.

Figure 10: Allocation and Allowable Uses of Transient Occupancy Tax Revenue



Source: Auditor generated based on Sacramento City Code Section 3.28.180 and Measure N.

The U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government*, also known as the *Green Book*, provides that management should design, implement, and operate internal controls to achieve operational, reporting, and compliance objectives. Specifically, Principle 10, Design Control Activities, states that management should design control activities to achieve objectives and respond to risks. In addition, Principle 13, Use Quality Information, states that management should obtain or generate and use relevant, quality information to achieve the entity's objectives. For restricted revenues, these principles support the need for review procedures, supporting documentation, and reliable expenditure information to help ensure expenditures are consistent with applicable legal restrictions. Guidance from the Government Financial Officer Association (GFOA)[9] further recommends ongoing control activities to ensure that restricted resources are expended only in accordance with applicable requirements.

Because TOT revenues are generated from visitors to Sacramento and are subject to voter-approved restrictions, ensuring expenditures comply with City Code requirements is important to maintaining public trust and demonstrating accountability for the use of these funds.

According to Convention and Cultural Services (CCS) staff, expenditures are reviewed during the financial transaction approval process and during reviews of Community Center Fund expenditures. CCS staff stated that the reviews occur at least quarterly and include consideration of whether expenditures are consistent with the purposes established by Measure N. Staff also stated that, when needed or when questions arise, they consult with the City Attorney's Office and/or the department associated with the expenditure to obtain additional information.

To determine whether restricted TOT revenues were used for allowable purposes, we reviewed a sample of expenditures charged to the Community Center Fund during the audit period. We focused our testing on the Community Center Fund because the City uses this fund to account for expenditures supported by restricted TOT revenues. Our sample included 68 expenditures totaling approximately $321,288. For each expenditure, we reviewed available supporting documentation, including payment records, invoices, purchase orders, and other relevant documentation, to determine whether the expenditure was consistent with the allowable uses authorized by Sacramento City Code section 3.28.180.

Based on our testing, we found that the City has a procedure that supports compliance with the expenditure requirements detailed in City Code. The expenditures reviewed were consistent with authorized uses of restricted TOT revenues, and we identified no expenditures that appeared inconsistent with the purposes established by Measure N and City Code.

[9] The Government Finance Officers Association (GFOA) is a leading professional association serving state and local government finance professionals across the United States and Canada. Widely recognized for developing best practices in public financial management, GFOA publishes guidance and research, providing education and professional development, offering certifications, and establishing best practices across areas including budgeting, accounting, auditing, procurement, debt management, treasury management, pensions, internal controls, and financial reporting.

Finding 3: The City Can Strengthen Its Control Framework for Administering Short-Term Rental Transient Occupancy Tax

Short-term rentals have expanded the lodging market by allowing residential properties, or portions of residential properties, to be rented to guests for short-term stays. Like hotels and other lodging businesses, short-term rental operators are subject to the City's Transient Occupancy Tax requirements when they provide taxable lodging within the City. The City Code also requires short-term rental operators to obtain applicable permits and comply with related operating requirements.

The City is responsible for administering and enforcing its Short-Term Rental (STR) Transient Occupancy Tax (TOT) ordinance. Effective administration requires the City's Revenue Division (Revenue) to identify STR operators subject to the tax, verify that applicable taxes are completely and accurately remitted, and monitor ongoing compliance with City requirements. Because STR activity frequently occurs through online hosting platforms that provide limited information with TOT remittances, effective administration depends on reliable information, effective verification procedures, and ongoing monitoring working together as an integrated system of internal controls.

These control activities are interdependent and collectively support the City's administration of STR-related TOT. Revenue must first identify the population of STR operators subject to the City's TOT ordinance before it can verify that applicable taxes have been completely and accurately remitted and monitor ongoing compliance with City requirements. Weaknesses in any one of these areas reduce the effectiveness of the City's overall control framework and limit management's ability to obtain reasonable assurance that the STR TOT program is operating as intended.

We reviewed Revenue's processes for administering STR-related TOT and found that:

- The City can establish processes to identify and maintain reliable information about the population of STR operators subject to Transient Occupancy Tax;
- The City can enhance its procedures for verifying the completeness and accuracy of short-term rental tax remittances; and
- The City can enhance its monitoring processes to better identify and address emerging short-term rental compliance risks.

Collectively these improvements would enhance the City's ability to obtain reasonable assurance that STR operators subject to the City's TOT ordinance have been identified, that required taxes are completely and accurately remitted, and that emerging compliance risks are identified and addressed in a timely manner. The following sections discuss each of these areas in greater detail.

The City can establish processes to identify and maintain reliable information about the population of STR operators subject to Transient Occupancy Tax

Effective administration of the City's STR TOT program begins with identifying the population of STR operators subject to the City's tax requirements. To effectively administer the City's TOT ordinance, Revenue should maintain reliable information regarding STR activity and implement procedures to identify new operators, maintain current information on existing operators, and periodically compare available information from multiple sources to support ongoing tax administration.

To evaluate the City's processes for identifying STR activity, we reviewed STR permit records and Revenue's STR remittance tracking records; interviewed Revenue management regarding its identification and tracking processes; reviewed prior and current STR monitoring practices; identified hosting platforms advertising STR properties within the City; and evaluated the procedures used to identify new STR operators and maintain information on existing operators.

The U.S. Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (*Green Book*) provide that management should use quality information to achieve the entity's objectives and design control activities to respond to identified risks. Applying these principles to the City's STR program requires management to maintain reliable information regarding the population of STR operators and hosting platforms subject to or involved in administering the City's TOT requirements. Management should also implement procedures that support the ongoing completeness and accuracy of that information. Reliable information serves as the foundation for subsequent control activities, including verifying tax remittances and monitoring ongoing compliance.

The City Should Maintain Reconciled Information Regarding STR Operators

Our review identified opportunities to strengthen the City's processes for maintaining reliable information regarding the population of STR operators subject to the City's TOT ordinance. Although the City maintains multiple sources of STR information, including permit records and STR remittance tracking records, these information sources are not integrated through a documented reconciliation process.

Revenue management identified Accela as the City's system of record for permitted STR properties. Accordingly, Accela provides the City with an established population of STR operators that have obtained a City permit. However, because the system contains records of known permit applicants and permit holders, it does not, by itself, identify STR operators that are operating without a permit. Periodic comparison of Accela records with hosting platform information and other available data sources would help Revenue identify potentially unpermitted STR activity and maintain more complete information regarding the population subject to the City's TOT requirements.

Revenue management stated that because many operators remit taxes through hosting platforms that provide only aggregate payment information, the City cannot reconcile its STR permit records to remittance records or determine the remittance status of many permitted STR properties. As a result, Revenue cannot readily determine whether all operators subject to the City's TOT requirements have been incorporated into its compliance activities.

As explained in more detail below, the City is developing ordinance changes that would require hosting platforms to provide additional property-level information. If adopted and implemented, these reporting requirements could provide Revenue with information needed to compare permit, platform, and remittance records. However, while Revenue has documented procedures for certain reconciliation activities, the City has not established a comprehensive process for using property-level platform information to compare STR activity to City records, identify and investigate discrepancies or unmatched properties, document review results, and follow up on potential noncompliance.

Until the City obtains sufficient property-level information and establishes procedures for using it, Revenue cannot readily provide reasonable assurance that all operators subject to the City's TOT requirements have been identified and incorporated into its compliance activities.

The City Could Strengthen Processes to Identify and Track All Hosting Platforms Facilitating STR Activity

Hosting platforms are an integral component of the City's STR control framework because they advertise STR properties, facilitate bookings, accept lodging payments, collect applicable TOT from guests, and, in most cases, remit taxes on behalf of operators. Accordingly, maintaining reliable information regarding STR activity also requires Revenue to identify and track the hosting platforms facilitating taxable STR activity within the City.

Revenue's records identified four hosting platforms as remitting STR taxes directly to the City, including Airbnb and VRBO, which are among the largest platforms operating in the STR market. However, through limited audit research, we identified approximately 10 additional hosting platforms advertising STR properties located within the City that were not included in Revenue's platform inventory and were not remitting TOT to the City.

Our review indicated that these additional platforms collect applicable lodging taxes from guests when they accept payment for STR bookings. However, we did not verify that taxable bookings occurred through each platform, that the platforms collected TOT associated with properties located within the City, or that any specific taxes were due but not remitted. Nevertheless, because these platforms are responsible for collecting TOT when bookings are confirmed but they have not remitted any TOT to the City, there is a risk that the City has not received all taxes collected on its behalf. This creates a risk of lost revenue and unpaid tax liabilities and requires additional follow-up to identify affected operators, determine amounts owed, and pursue collection as appropriate.

These results indicate that Revenue's current identification procedures do not provide reasonable assurance that all hosting platforms facilitating taxable STR activity have been identified and incorporated into the City's oversight process.

The City Could Enhance Processes to Identify STR Activity

We also identified opportunities to further develop documented procedures requiring periodic comparison of available STR information, including permit records, remittance records, hosting platform information, or other available data sources to identify potentially unregistered or unreported STR activity. Revenue has a documented procedure for comparing Airbnb listings available through Airbnb's City Portal with the City's STR permit list and requesting that Airbnb block listings that do not display a valid City permit number. Revenue management indicated that it understood these reconciliations were being performed; however, when requested, Revenue was unable to provide documentation demonstrating that staff consistently completed the procedure or followed up on identified exceptions during the audit period. The absence of retained documentation limited management's ability to verify that the reconciliation was performed as intended.

Further, Revenue's current review is limited to Airbnb.[10] While Airbnb is the largest hosting platform, it is only one of several platforms facilitating STR activity within the City. Therefore, the Airbnb reconciliation procedure does not provide a comprehensive mechanism for monitoring STR activity across the broader marketplace.

The City's previous use of a third-party compliance service further demonstrates the need for a structured monitoring process. In 2018, Revenue contracted with a third-party compliance service to identify permitted and unpermitted STR properties, monitor listings across multiple hosting platforms, maintain information regarding STR activity, track potential violations, and provide reporting tools to support the City's compliance efforts. One of the service deliverables established in the initial contract was the development and ongoing maintenance of a database of noncompliant STR locations. However, management stated that the quality of the services began to decline in 2023 and that Revenue could determine the contractor was not obtaining the permitting information needed to accurately update the list of noncompliant STRs and the agreement was subsequently discontinued in late 2024.

The City has not subsequently implemented a comparable internal or external process to systematically identify and maintain reliable information regarding STR activity across multiple hosting platforms. As a result, key identification and information-gathering activities previously performed through the contractor are no longer performed through a structured process.

According to Revenue management, before discontinuing the agreement, Revenue began working on an ordinance update intended to strengthen the information available to the City regarding STR activity. If adopted and implemented, the ordinance update may provide Revenue with additional information to support its monitoring efforts. However, the City would still need documented procedures for periodically reviewing and comparing the information obtained, investigating potential exceptions, and documenting follow-up and resolution.

Benchmarking Demonstrated a Range of Approaches to Identifying and Tracking STR Activity

As part of our audit, we benchmarked STR Transient Occupancy Tax oversight practices used by 11 California jurisdictions with significant tourism activity. The jurisdictions varied in population and STR activity, with reported STR populations ranging from approximately 100 properties in Napa to more than 8,000 in San Diego. The benchmarking was performed to better understand how jurisdictions identify STR activity, maintain information regarding STR operators, and obtain information needed to support ongoing tax administration.

As shown in Figure 11, the jurisdictions used different administrative models and employed a variety of mechanisms to oversee STR activity and tax compliance. Six used specialized monitoring software or contracted data services, ten required permit or registration numbers to appear on online listings, and

[10] It is important to note that the Revenue Division currently does not have access to sufficient information from other platforms that currently remit TOT to the City to conduct a comparable review.

five obtained additional property or financial information from hosting platforms. Jurisdictions often used multiple mechanisms together so that listing, registration, platform, and remittance information could be compared to identify potentially unregistered or noncompliant activity.

Figure 11: Oversight Mechanisms Used by Benchmark Cities

Jurisdiction	Remittance Model			Specific Data Required from Platform	Data Service Contract	Registration Number Required on Listings
	Platform	Operator	Both			
Napa		✓		—	✓	✓
Santa Clara	✓			—	—	—
Encinitas		✓		—	—	✓
Palm Springs		✓		—	—	✓
San Diego			✓	✓	—	✓
San Francisco			✓	✓	✓	✓
Long Beach			✓	✓	✓	✓
Anaheim			✓	✓	—	✓
Newport Beach		✓		—	✓	✓
Palm Desert			✓	✓	✓	✓
South Lake Tahoe		✓		—	✓	✓
Sacramento			✓	—	—	✓

✓ Yes — None/unknown

Source: Auditor generated based on benchmarking research of selected California jurisdictions' short-term rental oversight practices.

Our benchmarking did not identify an established best practice, and no single mechanism necessarily provides complete assurance that all taxable STR activity has been identified. One jurisdiction that requests property-level information from a host platform reported that the information is not consistently provided and, when received, may not include all requested data. Another jurisdiction indicated that, even after adopting an ordinance requiring additional platform reporting, it expects to continue using a contracted monitoring service because it does not anticipate that platform-provided information alone will be sufficiently reliable for oversight purposes. However, the benchmarking demonstrates that benchmarked jurisdictions have established structured processes to identify active STR listings, maintain operator information, and compare available records. Outside of the City's Airbnb reconciliation process, the City does not currently have a comparable process for regularly identifying active STR operators across other hosting platforms or systematically comparing permit, listing, and remittance information.

Reliable STR Information Is Necessary to Support Subsequent Compliance Activities

Without reliable information regarding the population of STR operators and the hosting platforms facilitating taxable STR activity subject to the City's TOT ordinance, the City has limited assurance that all operators have been identified and incorporated into its compliance activities. As a result, the City's oversight is largely reactive rather than proactive, relying in part on community members to report suspected unpermitted or noncompliant STR activity. Consequently, Revenue's ability to identify potentially unregistered operators, identify non-remitting hosting platforms, investigate potential discrepancies, and support subsequent remittance verification activities is significantly limited.

Establishing a structured process to identify active STR operators, maintain current operator information, and periodically compare available records would support a more proactive oversight approach. It would also improve the reliability of the City's STR information and provide a stronger foundation for verifying whether applicable TOT is completely and accurately remitted.

RECOMMENDATIONS

We recommend the Finance Department:

1. **Develop and document procedures for identifying and maintaining complete and current information regarding short-term rental operators, properties, and hosting platforms facilitating short-term rental activity within the City.**

2. **Establish procedures to periodically identify new short-term rental hosting platforms operating in the City and determine whether appropriate registration, reporting, tax collection, and remittance requirements have been established.**

3. **Establish a documented supervisory review process to ensure short-term rental remittance verification procedures are completed as required and identified discrepancies are appropriately investigated and resolved.**

The City can enhance its procedures for verifying the completeness and accuracy of short-term rental tax remittances.

Identifying the population of STR operators, however, is only one component of an effective STR TOT control framework. Once operators have been identified, Revenue must also establish procedures to verify that applicable taxes have been completely and accurately remitted. Effective verification procedures provide reasonable assurance that taxes due to the City are accurately calculated, collected from guests, and ultimately received by the City.

To evaluate the City's remittance verification processes, we reviewed hosting platform agreements, remittance records, correspondence with Revenue management, and selected online STR listings. We also interviewed Revenue management regarding the City's remittance verification procedures and evaluated whether Revenue performs procedures to independently verify the completeness and accuracy of STR tax remittances.

Our review found that the City can establish a documented process to independently verify the completeness and accuracy of STR tax remittances. Although Revenue receives remittances from several hosting platforms, the information provided by those platforms generally consists of aggregate payment amounts and does not identify the individual STR properties included within each remittance.

Revenue management stated the City has made multiple efforts over time to obtain additional information from hosting platforms, including direct outreach and follow-up correspondence. However, management explained that hosting platforms have historically been reluctant to provide property-level information that would help the City independently verify STR-related TOT remittances, despite existing ordinance requirements intended to support tax administration.

Revenue has also had to take additional steps when platform compliance issues have occurred. During the audit, we informed revenue of one of the more than 10 hosting platforms we identified as advertising STR properties within the City but not remitting TOT. Documentation provided by Revenue showed that, in 2024, the department initiated efforts to bring Booking.com into compliance with the City's TOT code requirements. However, due to staffing turnover, the matter was not continuously pursued. Revenue resumed follow-up after the issue was discussed with the Office of the City Auditor and issued a demand letter in 2026 after the platform did not respond to its subsequent outreach.

This issue demonstrates the importance of establishing documented procedures, responsibilities, and timelines for following up on potential platform compliance issues. It also demonstrates that the City may not always receive timely or cooperative responses from hosting platforms when such concerns arise. Our benchmarking research also found that Sacramento is not alone in experiencing challenges obtaining information from hosting platforms. Other jurisdictions reported similar difficulties obtaining required listing or property-level information from platforms, even when local requirements had been adopted to improve STR reporting. These experiences reinforce the importance of not relying solely on platform cooperation to support STR-related TOT compliance.

Because hosting platforms play a significant role in facilitating STR transactions and collecting or remitting related taxes, cooperation from these platforms is important to effective STR-related TOT administration. However, the City's experience shows that hosting platforms have not consistently provided the information, responsiveness, or cooperation needed to support complete and accurate tax compliance. Specifically, because the City does not receive property-level remittance information from hosting platforms, Revenue cannot determine which operators remitted taxes through hosting platforms or whether all taxable STR activity has been captured through existing remittance records. As a result, Revenue cannot independently verify that STR tax remittances are complete and accurately reflect all taxable STR activity.

Our testing demonstrated the practical limitations created by the City's current verification process. During our review of STR remittances, we identified an STR operator that reported remitting TOT through a hosting platform. The remittance form reported total taxable rent rather than the amount of tax due. However, based on the operator's reported taxable rent, we identified a discrepancy between the tax owed and the amount Revenue recorded as received from the platform for the same reporting period. Because Revenue does not reconcile individual property activity to hosting platform remittances and lacks property-level remittance information, it could not readily determine the reason for the discrepancy or independently verify whether the appropriate amount of tax had been remitted. This example illustrates how the City's current verification process limits its ability to investigate discrepancies when they are identified.

In addition, our review of selected STR listings identified instances in which lodging taxes displayed on hosting platform websites appeared inconsistent with applicable City tax and assessment requirements. Revenue management stated that the City does not have documented procedures to verify whether hosting platforms are calculating and collecting taxes in accordance with City requirements. Consequently, Revenue relies primarily on hosting platforms to accurately calculate, collect, and remit applicable taxes without performing independent verification of those calculations. This arrangement limits the independence of the City's oversight because it relies on the same hosting platforms responsible for calculating, collecting, and remitting the taxes to provide assurance that those amounts are accurate.

The GAO's *Green Book* states that management should design control activities to achieve objectives and respond to identified risks and use quality information to support the achievement of organizational objectives.[11] These control activities include reconciliations, supervisory reviews, and other verification procedures designed to provide reasonable assurance that transactions are complete and accurate. Effective verification controls provide management with assurance that taxes have been properly collected and remitted and that identified discrepancies are investigated and resolved. By designing and implementing controls to ensure sufficient remittance information and documented verification procedures, the City can provide assurance that STR taxes are completely and accurately remitted.

RECOMMENDATIONS

We recommend the Finance Department:

4. **Upon obtaining sufficient property-level information, develop and implement procedures to verify the completeness and accuracy of short-term rental tax and assessment remittances. The procedures should include reconciling available operator, platform, and remittance information; periodically verifying that applicable tax and assessment rates are correctly applied; and documenting the resolution of identified discrepancies.**

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[11] U.S. Government Accountability Office, *Standards for Internal Control in the Federal Government* (*Green Book*), GAO-25-107721, Principles 10 and 13. Principle 10 states that management should design control activities to mitigate risks to achieving objectives and identifies management reviews, comparisons of data, controls over the complete and accurate recording of transactions, documentation, and oversight of processes performed by service organizations as common control activities. Principle 13 states that management should use quality information by obtaining relevant data from reliable sources and processing that data into information that is appropriate, current, complete, accurate, accessible, and timely.

5. **Develop and document procedures to periodically review information from hosting platform portals, City records, and other available sources, investigate potential noncompliance, recover unpaid taxes and assessments, including applicable penalties and interest when appropriate, and document follow-up actions and resolutions.**

6. **In consultation with the City Attorney's Office, develop and implement documented procedures for bringing hosting platforms into compliance with applicable City TOT requirements. The procedures should establish responsibilities and timelines for initial outreach, follow-up, determination of applicable collection and remittance obligations, escalation to the City Attorney's Office or other enforcement channels, and documentation of actions taken and outcomes.**

The City can enhance its monitoring processes to better identify and address emerging short-term rental compliance risks.

Ongoing monitoring is an essential component of an effective Short-Term Rental (STR) Transient Occupancy Tax (TOT) compliance program because it enables Revenue to identify changes in the STR marketplace, evaluate whether existing controls continue to operate effectively, and respond to emerging compliance risks. As the STR marketplace continues to evolve, Revenue should perform periodic monitoring activities to identify new STR activity, evaluate changes in hosting platform operations, assess compliance risks, investigate identified discrepancies, and implement corrective actions when necessary. Effective monitoring enables management to evaluate whether existing control activities remain effective and adapt to changes in the operating environment.

To evaluate the City's monitoring activities, we interviewed Revenue management regarding STR oversight practices, reviewed current STR monitoring procedures, examined the City's previous STR compliance contract, and benchmarked monitoring practices used by comparable California jurisdictions.

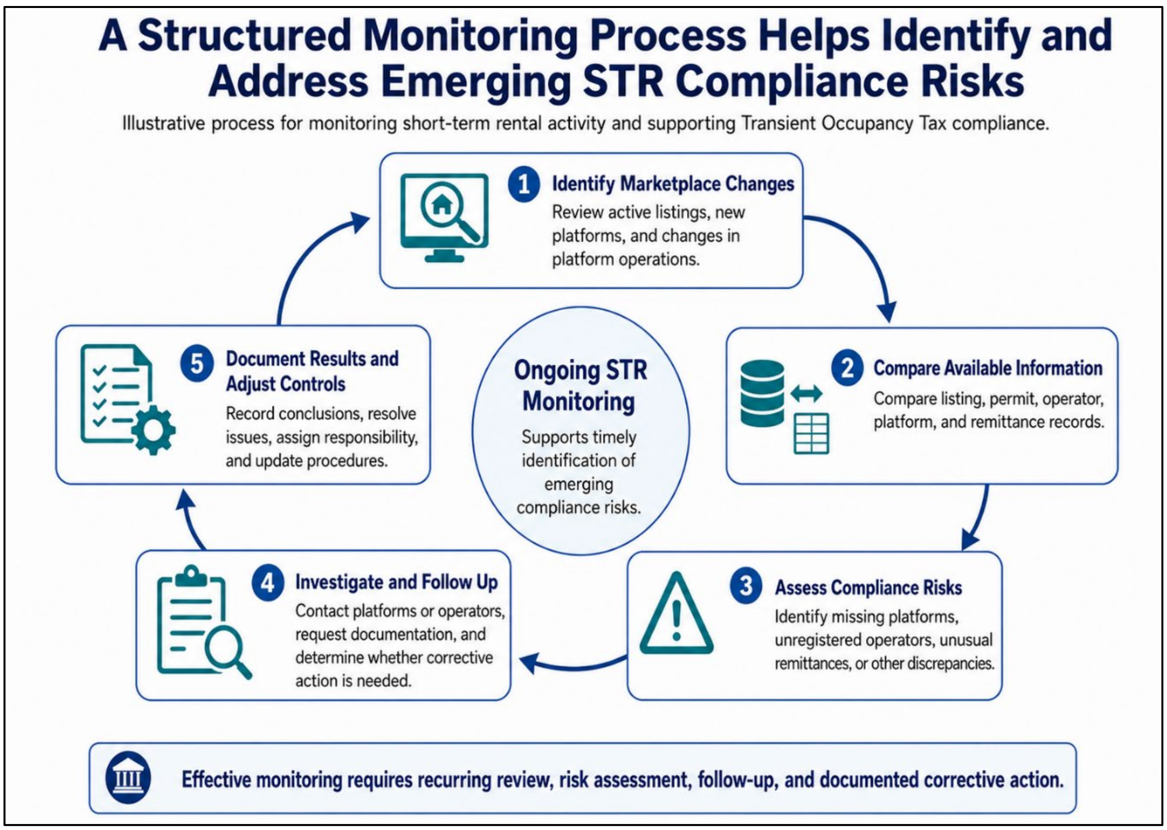
The City has an opportunity to strengthen its STR TOT oversight by establishing a structured monitoring program. As mentioned earlier in this finding, in 2018, the City contracted with a third-party compliance service to identify permitted and unpermitted STR properties, monitor listings across multiple hosting platforms, maintain a centralized database of STR activity, track potential violations, support enforcement activities, and provide reporting tools to assist Revenue's oversight of STR compliance. Revenue management stated that the contractor did not perform the contracted services as expected, and the agreement was ultimately discontinued. However, following termination of the agreement, the City did not implement a comparable internal monitoring process or establish documented procedures defining how ongoing monitoring activities should be performed.

As previously mentioned, although Revenue performs certain monitoring activities, such as responding to identified issues and periodically reviewing selected hosting platform websites, Revenue has not established a comprehensive, risk-based monitoring process for STR activity across the broader marketplace.

During our audit, Revenue's remittance records identified four hosting platforms that currently remit TOT directly to the City. We identified more than 10 additional hosting platforms advertising STR properties within Sacramento that were not included in Revenue's existing remittance records. While not all hosting platforms necessarily facilitate taxable transactions requiring direct remittance to the City, this illustrates the importance of structured monitoring activities that periodically identifies new hosting platforms entering the STR marketplace, evaluating relevant developments involving existing platforms, evaluating changes in the STR marketplace and determining whether applicable tax collection and remittance requirements have been established for hosting platforms operating within the City.

Applying relevant GAO internal control principles to the City’s STR TOT program, a structured monitoring process could include recurring activities to identify marketplace changes, compare available information, assess compliance risks, investigate discrepancies, and document corrective actions, as illustrated in Figure 12.

Figure 12: Illustrative Activities for a Structured STR Monitoring Process



Source: Auditor-developed illustration applying relevant GAO internal control principles to the City’s STR TOT program.

As discussed earlier in this finding, many benchmark jurisdictions have adopted formal, proactive mechanisms to improve oversight of STR activity and support TOT compliance. These mechanisms included specialized monitoring software or contracted services, registration-number requirements, platform collection agreements, platform reporting requirements, and periodic comparison of available records. Although the jurisdictions used different administrative models, their practices generally established more standardized, recurring, and traceable processes for reviewing STR activity, identifying potential compliance concerns, and documenting follow-up actions.

While these practices do not establish a single preferred approach for the City, they demonstrate that the City has several internal, contractual, regulatory, and data-reporting options it could evaluate when designing a structured monitoring process.

Revenue management stated that its current strategy is focused on implementing a proposed ordinance requiring hosting platforms to provide additional property-level information.[12] Management indicated that enhanced reporting requirements are expected to improve the City's ability to identify STR activity and monitor compliance.

We reviewed the proposed hosting platform reporting requirements and found that the draft ordinance would require platforms to provide additional identifying and booking information, including the STR permit number, responsible person's name, property address, and number of days booked. However, the draft did not initially require platforms to report financial information, such as the taxable rental revenue or taxes collected for each operator, property, or booking. Without property-level financial information, Revenue would remain limited in its ability to compare taxable activity with reported remittances and determine whether applicable taxes and assessments were completely and accurately remitted.

Revenue management stated that, before the Office of the City Auditor reviewed the proposed ordinance, the Department had considered including property-level financial information in a separate ordinance amendment. The version we originally reviewed during the audit did not require property-level financial information. In discussions with the Finance Department, we recommended incorporating this information into the current proposed ordinance. Revenue agreed that doing so was appropriate and reported that the draft ordinance would be updated to address the recommendation.

Benchmarking results indicate that ordinance changes may not, by themselves, fully address STR oversight risks if hosting platforms do not provide timely, complete, or transparent information. During benchmarking, as discussed above, we found that other jurisdictions also experienced challenges obtaining required information from hosting platforms. Some jurisdictions indicated that, even after amending local STR ordinances to require additional platform reporting, they continued to use STR monitoring service contractors because of ongoing concerns regarding platform transparency, responsiveness, and willingness to partner with the jurisdiction.

These practices suggest that enhanced reporting requirements can be an important part of the City's STR oversight framework, but they should be supported by a structured monitoring process. Effective

[12] At the time of this audit, a proposed update to the City's legal framework governing STRs was presented to the City's Planning and Design Committee in March 2026. The proposed legislative changes would limit short-term rentals to owner-occupied primary residences and strengthen permit eligibility requirements. The proposal would also enhance enforcement by establishing clearer reporting requirements, strengthening oversight of online hosting platforms, and providing the City with additional information to identify and address unpermitted short-term rentals.

monitoring would include documented procedures to periodically review available information, evaluate compliance risks, compare platform-reported information to other available data sources, investigate discrepancies, and document follow-up actions.

The GAO's *Green Book* states that management should establish and operate monitoring activities to evaluate the effectiveness of the internal control system and remediate identified deficiencies in a timely manner (Principle 16). Effective monitoring should be supported by documented policies and procedures that define monitoring responsibilities, the frequency of monitoring activities, methods for evaluating results, and procedures for documenting and resolving identified issues.

Without a structured monitoring process, the City has limited assurance that emerging STR activity, changes in hosting platform operations, or other compliance risks will be identified and addressed in a timely manner. As the STR marketplace continues to evolve, the absence of ongoing monitoring increases the risk that new compliance issues will remain undetected and that opportunities to strengthen the City's administration of its STR TOT program will not be identified. Collectively, the issues discussed throughout this finding reduce Revenue's ability to effectively identify STR operators, verify tax remittances, and monitor ongoing compliance, limiting reasonable assurance that the City's STR TOT program is operating as intended.

RECOMMENDATIONS

We recommend the Finance Department:

7. **Develop and document a process for periodically monitoring short-term rental activity and compliance risks. The process should identify data sources, review frequency, responsibilities, and documentation requirements.**

8. **Evaluate staffing, technology, and contracted service options to determine the most effective approach for supporting the City's ongoing short-term rental monitoring activities.**

9. **Within 12 months after the ordinance’s effective date, evaluate whether hosting platforms are providing the complete, accurate, and timely property-level information required by the ordinance and whether the information is sufficient to support STR monitoring and verification of tax and assessment remittances. Develop additional procedures or corrective actions to address any identified limitations.**

Finding 4: The City Can Strengthen Processes Used to Track and Support Transient Occupancy Tax Revenues

The City collects Transient Occupancy Tax (TOT) from hotels, motels, bed and breakfasts, short-term rentals, and other lodging operators to support City operations and voter-approved restricted purposes. Effective administration of the City's TOT program depends on reliable information, documented procedures, and effective use of available information systems. Strengthening the internal control framework over documentation would improve accountability, consistency, and oversight of the City's TOT program.

The Revenue Division relies on TOT information to process tax remittances, monitor revenue activity, support budgeting and forecasting, and administer the City's TOT program. We evaluated the City's processes and oversight for administering the TOT program by interviewing Revenue personnel, reviewing relevant documentation, conducting process walkthroughs, testing Fiscal Year 2025 TOT tracking data, and comparing the City's lodging operator inventory to other available information sources. Our review identified opportunities to strengthen the processes used to track and support TOT revenues.

Our review found that the Revenue Division relies on a manually maintained spreadsheet to record, reconcile, and monitor TOT activity. Revenue Division staff stated that the spreadsheet serves as the primary source of information used to track TOT remittances and support budgeting, forecasting, revenue monitoring, and other administrative activities. Because this spreadsheet is used as a primary source of information, errors or inconsistencies in the spreadsheet can affect the reliability of information used for management decision-making.

Revenue Division staff stated that maintaining and reconciling the spreadsheet requires staff time to manually enter data. Specifically, staff stated that a manager spends approximately 4 to 8 hours per month for each tax category, including TOT, STMD, and STID, to manually update and reconcile tracking information. This manual process requires ongoing staff effort for routine administrative activities that could potentially be supported more efficiently through available system functionality.

Revenue Division staff informed us that the City has access to HdL Prime, which includes functionality capable of supporting TOT tracking activities. However, Revenue has not fully transitioned from the manually maintained spreadsheet to a more system-based process. Staff stated that expanding the City's use of HdL Prime for these functions may involve additional costs. Staff also stated that information must currently be manually compared across multiple systems because the systems do not work together effectively, limiting the department's ability to automate the process. This requires staff to spend significant time completing tasks that may otherwise be performed more efficiently through automation. As a result, the Revenue Division continues to rely on manual data entry, manual reconciliation, and manual corrections to maintain information used to administer the TOT program.

During our testing of Fiscal Year 2025 TOT tracking data, we reconciled 12 months of remittance records for a sample of 15 lodging facilities and identified 10 monthly entries with payments recorded in the incorrect reporting month. Although these errors did not indicate that payments were uncollected or that collected amounts were inaccurate, they reduce the reliability of monthly revenue information used for monitoring, budgeting, forecasting, and trend analysis. Accurate monthly information is important because timing differences or recording errors can affect the City's ability to evaluate revenue trends, identify unusual fluctuations, and provide reliable information for budget and forecasting purposes.

The GAO's *Green Book* states that management should design control activities to achieve objectives and respond to risks, design appropriate control activities over information systems, implement control activities through documented policies and procedures, and use quality information to achieve organizational objectives. These principles support the need for reliable information systems, procedures, and documented processes that help ensure information used for program administration is accurate.

Because the spreadsheet is manually maintained, the accuracy and completeness of information used to administer the TOT program depend on manual data entry and review procedures. While our testing did not identify evidence that payments were uncollected, the errors identified demonstrate the importance of review procedures that help prevent or detect recording errors before information is used for budgeting, forecasting, monitoring, and other management decisions. Strengthening the City's TOT tracking process by reducing reliance on manual data entry, using available system functionality where feasible, and implementing documented review procedures could improve operational efficiency and enhance the reliability of information used to administer the City's TOT program.

RECOMMENDATION

We recommend that the Finance Department:

10. **Consider evaluating opportunities to reduce reliance on the manually maintained TOT tracking spreadsheet by expanding the use of available system functionality or implementing other system-based solutions to record, reconcile, and maintain Transient Occupancy Tax information.**

City of SACRAMENTO
Finance Department

MEMORANDUM

Date: September 4, 2026
To: Farishta Ahrary, City Auditor
From: Bryan Howard, Finance Manager
Cc: Maraskeshia Smith, City Manager; Leyne Milstein, Assistant City Manager; Peter Coletto, Director of Finance

Ref No: 2026/27-04
Subject: Audit of the Transient Occupancy Tax

The City of Sacramento Finance Department – Revenue Division (Revenue) appreciates the Office of the City Auditor's (Auditor's Office) thorough review of the City's Transient Occupancy Tax (TOT) and recommendations for improving the administration of the City's short-term rental (STR) program. The Auditor's Office perspective is very valuable as they are able to provide an outside perspective, dedicate resources to research best practices, and provide actionable recommendations to improve operations. Below are Revenue's responses to the Auditor's Office's proposed recommendations in the TOT audit:

Recommendation 1 – Develop and document procedures for identifying and maintaining complete and current information regarding short-term rental operators, properties, and hosting platforms facilitating short-term rental activity within the City.

Revenue Response to Recommendation 1 *– Revenue agrees with this recommendation. Despite repeated asks, Revenue has not received support from any of the online hosting platforms when STR host-level information and data have been requested. Revenue identified this issue and expressed concern regarding this topic with the Auditor's Office during the TOT audit fact-finding process. Revenue is currently working to update the STR ordinance to require online hosting platforms to provide detailed host, property, finance, and booking information, as is now allowed by State law. Revenue is anticipating the amended ordinance to come to Council later this year.*

Recommendation 2 – Establish procedures to periodically identify new short-term rental hosting platforms operating in the City and determine whether appropriate registration, reporting, tax collection, and remittance requirements have been established.

Revenue Response to Recommendation 2 *– Revenue agrees with this recommendation. Revenue will implement a systematic process to identify and document STR hosting platforms operating in the City of Sacramento ("City"). Staff will perform outreach to inform these operators of the City's lodging tax and fee collection and remittance requirements.*

Recommendation 3 – Establish a documented supervisory review process to ensure short-term rental remittance verification procedures are completed as required and identified discrepancies are appropriately investigated and resolved.

Revenue Response to Recommendation 3 *– Revenue agrees with this recommendation and has implemented corrective action. Revenue established procedures to perform comparative analysis of information available from the City's largest online hosting platform, but the information is limited to listing IDs, URLs, and City issued STR permit numbers. The analysis identifies incorrect and false STR permit numbers used to list the STR on the hosting platform. It has been identified and communicated to the Auditor's Office that a lapse in processing this analysis has taken place. Revenue managerial staff have established a process to confirm the report is being completed regularly by staff and that non-active and false STR numbers are requested blocked on the online hosting platform.*

Recommendation 4 – Upon obtaining sufficient property-level information, develop and implement procedures to verify the completeness and accuracy of short-term rental tax and assessment remittances. The procedures should include reconciling available operator, platform, and remittance information; periodically verifying that applicable tax and assessment rates are correctly applied; and documenting the resolution of identified discrepancies.

Revenue Response to Recommendation 4 *– Revenue agrees with this recommendation and City Council approval of an updated STR ordinance to require online hosting platforms to provide detailed host, property, finance, and booking information will allow the City to implement the corrective action recommended by the Auditor's Office in a systematic manner. Revenue also reserves the right to audit STR hosting platforms for all periods within the statute of limitations under SCC Chapter 3.28, Unform Transient Occupancy Tax, which could also satisfy this requirement.*

Recommendation 5 – Develop and document procedures to periodically review information from hosting platform portals, City records, and other available sources, investigate potential noncompliance, recover unpaid taxes and assessments, including applicable penalties and interest when appropriate, and document follow-up actions and resolutions.

Revenue Response to Recommendation 5 *– Revenue agrees with this recommendation. Revenue has an established procedure to perform comparative analysis of information available from the City's largest online hosting platform, but the information is limited to listing IDs, URLs, and City issued STR permit numbers. The analysis identifies incorrect and false STR permit numbers used to list the STR on the hosting platform and provides the City the opportunity to block listings for hosts not compliant with the City's STR permit process.*

Additionally, Revenue works closely with City Code Enforcement to issue administrative penalties for STR noncompliance and violations. However, efficient enforcement requires obtaining property-level information, which is not made available, or provided upon request, *from any of the known online hosting platforms. Also, only the City's largest online hosting platform makes this limited information available to the City currently, and although they account for approximately 90% of all STR related TOT and listings in the City, Revenue acknowledges that the lack of information from the remaining 10% of know listings creates a vulnerability which Revenue hopes to eliminate with the updated ordinance referenced above.*

Recommendation 6 – In consultation with the City Attorney's Office, develop and implement documented procedures for bringing hosting platforms into compliance with applicable City TOT requirements. The procedures should establish responsibilities and timelines for initial outreach, follow-up, determination of applicable collection and remittance obligations, escalation to the City Attorney's Office or other enforcement channels, and documentation of actions taken and outcomes.

Revenue Response to Recommendation 6 *– Revenue currently has a process for communication and compliance outreach for noncompliant TOT remitters. Staff will deploy this process to noncompliant STR hosting platforms and have already done so to engage with a non-responsive STR hosting platform which has been escalated to the City Attorney's Office for consultation. Revenue will expand the existing documented TOT compliance procedures.*

Recommendation 7 – Develop and document a process for periodically monitoring short-term rental activity and compliance risks. The process should identify data sources, review frequency, responsibilities, and documentation requirements.

Revenue Response to Recommendation *7 – Revenue agrees with this recommendation. Revenue believes that the additional powers included in the ordinance amendment mentioned above will strengthen the current process for STR compliance and monitoring by giving the City the needed information to ensure compliance of STR operators and perform the necessary enforcement action for noncompliance.*

Recommendation 8 – Evaluate staffing, technology, and contracted service options to determine the most effective approach for supporting the City's ongoing short-term rental monitoring activities.

Revenue Response to Recommendation 8 *– Revenue consistently evaluates staffing levels and deploys staff accordingly to areas in need and will continue to do so in alignment with this recommendation. The additional powers included in the ordinance amendment mentioned above will allow Revenue to enhance its monitoring of STRs.*

Recommendation 9 – Within 12 months after the ordinance's effective date, evaluate whether hosting platforms are providing the complete, accurate, and timely property-level information required by the ordinance and whether the information is sufficient to support STR monitoring and verification of tax and assessment remittances. Develop additional procedures or corrective actions to address any identified limitations.

Revenue Response to Recommendation 9 *– Revenue agrees with this recommendation. Revenue intends to hold STR online hosting platforms accountable for their updated responsibilities as required in the updated STR ordinance, if approved. Staff will strategize and consult with the senior City staff and the City Attorney's Office and follow the process of compliance as recommended in Auditor's Office Recommendation 6.*

Recommendation 10 – Consider evaluating opportunities to reduce reliance on the manually maintained TOT tracking spreadsheet by expanding the use of available system functionality or implementing other system-based solutions to record, reconcile, and maintain Transient Occupancy Tax information.

Revenue Response to Recommendation 10 *– Revenue agrees with this recommendation. Revenue also identified the lodging tax and fee reconciliation process constraints and is currently strategizing to improve process efficiency. Enhanced technology systems will depend on resources available in the City budget.*