



Legislation Text

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CITY COUNCIL AGENDA ITEM

ACTION REQUESTED:

Pass the Ordinance amending Chapter 10, of Title 3, of the Naperville Municipal Code increasing the hotel and motel use tax rate to 5.50% and clarifying said tax applies to the use of online rental companies (Item 3 of 4).

DEPARTMENT: Finance Department

SUBMITTED BY: Rachel Mayer, Finance Director

BOARD/COMMISSION REVIEW:

During its December 21, 2017, the Naperville Development Partnership Executive Board supported increasing the City's hotel and motel use tax from 4.40% to 5.50% and clarifying that said tax applies to the use of online rental companies.

BACKGROUND:

Since 1985, the City has imposed a tax upon the use and privilege of renting, leasing, or letting a hotel or motel room within the City. The current rate is 4.40% of the room rental rate (not including taxes or other non-room rental charges added to the hotel or motel bill), for each such hotel or motel room rented for every 24-hour period or fraction thereof.

The average hotel/motel tax rate of comparable communities is 5.50%.

Unlike taxes administered by the Illinois Department of Revenue, the City's hotel and motel use tax is administered by the City's Finance Department and therefore there are no timing deadlines for changes to the hotel and motel use tax. Council may choose the appropriate rate and the effective date for changes to this use tax. Currently the tax is collected based upon quarterly receipts from each of the City's hotel and motels.

DISCUSSION:

During the December 19, 2017 City Council meeting, the motion to approve the City's property tax levy was amended to direct staff to bring back for Council consideration \$2.1 million in changes that would further reduce the property tax levy to an amount less than last year's levy.

As a component of the \$2.1 million in changes that would further reduce the property tax levy, it is recommended that the City increase its hotel and motel use tax rate from 4.40% to 5.50%, effective April 1, 2018.

The City currently collects receipts from twenty-one hotels throughout the City. There are currently four rebate agreements that the City has entered with the following hotels: Hotel Arista, Hotel Indigo,

the Marriott, and Embassy Suites. Any increase in the hotel and motel use tax would increase the rebates pursuant to the incentive agreements.

In addition to the increase in the rate, at the request of the hotel operators, staff is also recommending that the hotel and motel use tax ordinance be amended to and clarify that said tax applies to the use of online rental companies.

FISCAL IMPACT:

The City currently receives approximately \$2.64 million in gross annual receipts through the hotel and motel use tax at a rate of 4.4%. Therefore, an incremental 1.1% is projected to yield \$600,000 in gross receipts on an annual basis. Net of all rebate agreements, the City would earn an incremental \$350,000 of tax revenue annually.

With the implementation of an increase on April 1, 2108, to coincide with the City's quarterly collection, the 1.1% tax rate increase will yield \$450,000 in gross receipts and net of all rebate agreements, the City would earn an incremental \$280,000 in 2018.