

AUDIT PROPOSAL

Reviewing Select Cities' Use of Transient Guest Tax Revenues

SOURCE

This audit proposal was requested by Representative Sean Tarwater.

BACKGROUND

State law allows cities and counties in Kansas to charge a transient guest tax to hotel guests and guests at certain other lodging facilities. If a county imposes a transient guest tax, state law prohibits cities within that same county from imposing a tax and vice versa. Cities and counties determine the size of the transient guest tax. As of January 2024, 151 cities and counties in Kansas imposed transient guest taxes ranging from 1% to 9% of gross receipts.

Cities and counties receive 98% of the revenues from transient guest taxes and the state receives the remaining 2% for the Department of Revenue's work to collect and distribute the tax. Local governments collected about \$144 million in revenue from transient guest taxes from fiscal years 2021 to 2023. They are supposed to use those revenues to promote tourism activities.

Cities adopt ordinances for how transient guest taxes may be used. For example, Overland Park's transient guest tax revenues may be used for four purposes: (1) to promote activities related to conventions and tourism, (2) to pay for costs associated with building, renovating, operating, or maintaining capital projects related to conventions and tourism, (3) to pay the principal and interest on certain bonds the city issued for such capital projects, and (4) to pay up to \$50,000 per year for economic development.

Legislators have expressed interest in understanding how cities spend transient guest tax revenues and whether that spending aligns with state law and local ordinances.

AUDIT OBJECTIVES AND TENTATIVE METHODOLOGY

The audit objective listed below is the question we would answer through our audit work. The steps listed for the objective convey the type of work we would do. These may change as we learn more about the audit issues.

Objective 1: Did select cities spend transient guest taxes appropriately in recent years?

Our tentative methodology would include the following:

- Select a small number of large Kansas cities to review. Talk to city officials and review relevant documentation to understand the history of the cities' transient guest tax rates, revenues, and debts. This would include understanding whether such amounts are increasing or decreasing and why.
- Talk to city officials and read state law, city ordinances, and relevant city contracts to understand how transient guest taxes are accounted for and the requirements for how those funds may be used.

- Review budget documents, expenditure data, and other available documentation to determine how the selected cities distributed transient guest tax revenues across relevant funds. Also determine how the city used transient guest tax revenues from those funds in the last three years.
- Compare the cities' distribution and use of transient guest tax revenues to applicable legal and contractual requirements to determine if such distributions and expenditures appeared to be appropriate.
- If any expenditures do not appear to be appropriate, talk to city officials to understand why the spending was approved.

ESTIMATED RESOURCES

We estimate this audit would require **4 auditors** for a total of **4 months** (from the time the audit starts to our best estimate of when it would be ready for the committee).