

Agenda Report

March 26, 2018

TO: Honorable Mayor and City Council

THROUGH: Finance Committee

FROM: Director of Finance

**SUBJECT: VOLUNTARY COLLECTION AGREEMENT WITH AIRBNB FOR
THE COLLECTION OF TRANSIENT OCCUPANCY TAX**

RECOMMENDATION:

It is recommended that the City Council:

1. Find that the proposed action is not a project subject to the California Environmental Quality Act (CEQA) as defined in Section 21065 of CEQA and section 15378 of the State CEQA Guidelines and, as such, no environmental document pursuant to CEQA is required for the project; and
2. Authorize the City Manager to execute an agreement with Airbnb to collect Transient Occupancy Taxes on behalf of Pasadena residents who rent their residences to others using the Airbnb application and platform.

BACKGROUND:

Airbnb is one of several online, internet-based applications that allows people to rent out rooms in their homes, or their whole house, to third parties in exchange for payment. These online applications allow residents to advertise their homes, or portions thereof, on the worldwide web. The transactions are cashless, as the tenants directly pay the rental fee to the online service usually by credit or debit card. The online service receives a fee, which is usually a percentage of the rental fee, and remits the remainder of the fee to the property owner.

There are other on-line applications in the short-term rental marketplace, but Airbnb appears to have the largest market share among its competitors. This staff report is limited to recommending a Voluntary Collection Agreement (VCA) with Airbnb to collect Transient Occupancy Taxes (TOT).

Airbnb was founded in 2009 and now claims to have more than 4.5 million listings in 81,000 cities. They have transformed the short-term rental market, particularly because of the marketplace platform it created that provides for a decentralized supply of short-term lodging positions to compete directly with hotels.

As previously discussed when the City Council amended the Zoning Code to permit certain types of short-term rentals, the City's Transient Occupancy Tax of 12.11 percent does apply to all short-term rentals. Using the initial estimate that there are more than 500 unique, short-term rentals in Pasadena, the individual registration and collection of TOT will be onerous for both the hosts and the City.

Airbnb has entered into VCAs with several cities in California to collect TOT from the rental transactions occurring within each contracting city's jurisdiction. If the City of Pasadena enters into a VCA with Airbnb as proposed by staff, then Airbnb will collect the TOT on behalf of the property owners and will subject itself to third party tax auditing.

Airbnb represents that it achieves 100 percent compliance with TOT collection through the VCA. They achieve this compliance by programming their online site to automatically collect the TOT from guests who rent from property owners. Once collected, Airbnb remits the TOT directly to the City as required by the City's code. While the property owner is responsible for remitting the tax, Airbnb voluntarily collects and remits the tax on behalf of the property owner. The VCA includes the City's right to audit the collection of TOT from Airbnb every 48 months; which is consistent with the current practice of TOT audits.

Hosts using platforms other than Airbnb are required to remit TOT individually until which time these platforms are willing to consider agreements similar to the VCA. The remittance of TOT for the Hosts has been included in the online portal where registration occurs to provide as simple a process as possible. Hosts also have the option to remit TOT as hotels do using the City's standard form and mailing or dropping off their payment to Municipal Services at City Hall.

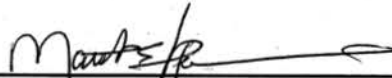
ENVIRONMENTAL ANALYSIS:

The proposed actions are governmental fiscal activities that would not cause either a direct physical change in the environment or a reasonably foreseeable indirect physical change in the environment. Therefore, the proposed action is not a "project" subject to CEQA, as defined in Section 21065 of CEQA and Section 15378 of the State CEQA Guidelines. Since the action is not a project to CEQA, no environmental document is required.

FISCAL IMPACT:

The exact fiscal impact of this VCA is currently unknown. A very conservative estimate assumes that there are currently 500 whole or partial units listed on various sites, and Airbnb represents at least 75 percent of them. Using the estimate provided to the City Council in October 2017 that short-term rentals may generate \$600,000 to \$700,000 of new TOT revenue, and assuming Airbnb's claimed market share, it is possible that this VCA could provide for the streamlined collection of more than \$450,000 annually in TOT revenue. The projected revenue will be included in the Fiscal Year 2019 proposed budget.

Respectfully submitted,



MATTHEW E. HAWKESWORTH
Director of Finance

Approved by:



STEVE MERMELL
City Manager