



# Agenda Report

October 28, 2024

**TO:** Honorable Mayor and City Council

**THROUGH:** Finance Committee

**FROM:** Department of Finance

**SUBJECT: AUTHORIZE THE CITY MANAGER TO ENTER INTO AN AGREEMENT WITH HOMEAWAY.COM, INC FOR THE COLLECTION OF TRANSIENT OCCUPANCY TAX AND TOURISM BUSINESS IMPROVEMENT DISTRICT ASSESSMENT**

## **RECOMMENDATION:**

It is recommended that the City Council:

1. Find that the action proposed herein is statutorily exempt from the California Environmental Quality Act ("CEQA") pursuant to State CEQA Guidelines Section 15273 (Rates, Tolls, Fares, and Charges); and
2. Authorize the City Manager to execute an agreement with HomeAway.com, Inc. (HomeAway) to collect Transient Occupancy Taxes (TOT) and Tourism Business Improvement District Assessments (TBID) on behalf of Pasadena residents who rent their residences to others using the various HomeAway applications and platforms.

## **BACKGROUND:**

HomeAway is one of several online, internet-based applications, operating through VRBO.com in the United States, 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, and the City has had a Voluntary Collection Agreement (VCA) with Airbnb since 2018. Combined, Airbnb and HomeAway account for more than 98% of the bookings in Pasadena. This staff report is limited to recommending a Voluntary Collection Agreement (VCA) with HomeAway to collect TOT and TBID.

HomeAway was founded in 1995 with the goal of pairing homeowners with families looking for a place to stay, and now claims to have more than two million listings worldwide.

As discussed in 2017, 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% does apply to all short-term rentals. Currently, there are 304 unique listings with over 700 listings across all platforms.

In March 2023, the City Council held the final required hearing and adopted Resolution 9988 that renewed the Pasadena TBID, established new assessment rates, currently 4.89%, and amended the terms to include short-term rentals. The proposed VCA would provide for the collection and remittance of both TOT and TBID on behalf of property owners and will subject itself to third party tax auditing.

HomeAway represents that it achieves 100% compliance with TOT and TBID collection through the VCA. They achieve this compliance by programming their online site to automatically collect the TOT and TBID from guests who rent from property owners. Once collected, HomeAway remits the funds collected directly to the City as required by the City's code. While the property owner is responsible for remitting the tax, HomeAway 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 and TBID from HomeAway, which is consistent with the current practice of TOT audits.

Hosts using platforms without a VCA or a VCA that does not collect both TOT and TBID are required to remit TOT or TBID individually until which time these platforms are willing to consider agreements similar to the proposed VCA with HomeAway. The remittance of TOT and TBID for the hosts has been included in the online portal where registration occurs to provide as simple a process as possible.

**ENVIRONMENTAL ANALYSIS:**

The proposed collection and remittance of both TOT and TBID are statutorily exempt from CEQA pursuant to State CEQA Guidelines Section 15273 (Rates, Tolls, Fares, and Charges), which provides a statutory exemption for the establishment, modification, structuring, restructuring, or approval of rates, tolls, fares, or other charges by public agencies, which the public agency finds are for the purpose of:

1. Meeting operating expenses, including employee wage rates and fringe benefits,
2. Purchasing or leasing supplies, equipment, or materials,
3. Meeting financial reserve needs and requirements,
4. Obtaining funds for capital projects, necessary to maintain service within existing service areas, or
5. Obtaining funds necessary to maintain such intra-agency transfers as are authorized by city charter.

**FISCAL IMPACT:**

The exact fiscal impact of this VCA is currently unknown. Annual TOT from short-term rentals was approximately \$1.2 million in Fiscal Year (FY) 2024 and when the TBID boundary was amended in FY 2023 to include residential short-term rentals the annual revenue was estimated between \$300,000 and \$400,000. It is expected that revenue will increase due to HomeAway collecting and remitting funds for all of their platform hosts, eliminating the opportunity of non-compliance by hosts.

Respectfully submitted,



**MATTHEW E. HAWKESWORTH**  
Director of Finance

Approved by:



**MIGUEL MÁRQUEZ**  
City Manager