

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

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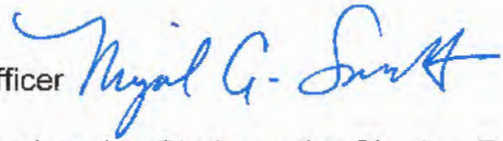
CAO File No. 0220-0513-0000

Council File No. 14-0593

Council District: Citywide

To: The Mayor
The Council

From: Miguel A. Santana, City Administrative Officer



Reference: Council File 14-0593 Relative to a Comprehensive Study on the Sharing Economy and Its Impacts on the City of Los Angeles

Subject: **THE SHARING ECONOMY: FOCUS ON SHORT-TERM RENTALS**

SUMMARY

In August 2014, the Council instructed the City Administrative Officer (CAO), with the assistance of several departments, to report on the impacts of the sharing economy industries (C.F. 14-0593). As a result of gathering information about the scope of the sharing economy and initial discussions with Council, this Office concluded that the report should focus on the Short-Term Rental (STR) industry because it is a high priority for the Mayor, the Council, the City, and the residents, businesses, and visitors of Los Angeles. In addition to discussing STRs, this report also provides recommendations for further study and action regarding the other sharing economy issues outlined in the Motion.

During the preparation of this report, the STR industry has frequently been in the news. More than 200 recent articles highlight the impact of STRs on residential neighborhoods and local governments. Many reports describe the growth and the size of the STR industry in Los Angeles. In addition, news pieces comment on how cities and STR hosts are concerned about the collection of taxes and the enforcement of zoning codes and other regulations. Over the last several months, articles and stories have outlined the positive financial effects for STR hosts. However, there is also a perception that STRs are removing rental housing from the marketplace. The news continues to document the fluctuating relationships between the STR companies and the cities where they conduct business. Therefore, the information presented in this report is as accurate and comprehensive as possible given how quickly the STR industry is evolving.

BACKGROUND

Definitions

For the purposes of this report, STRs are residential properties that are rented for less than 30 days at a time by a host. A host can either be present or not present during the transient

occupancy. The STRs are commonly listed through Internet-based hosting platforms. These websites advertise STRs and broker transactions between the renting and listing parties. Although there are many hosting platforms serving the Los Angeles region including HomeAway, VBRO, and Tripping, among others, the website Airbnb will be mentioned most often in this report because the company is viewed as an influential leader in the STR industry. Other definitions related to STRs and the sharing economy are included in Attachment A, Terms and Definitions.

STR Industry in Other Cities

To understand how Los Angeles might best approach the rapidly evolving STR industry, the CAO examined the following eight cities which have already investigated and/or developed legislation regarding STRs:

Austin, Texas	Portland, Oregon
Chicago, Illinois	San Francisco, California
Malibu, California	San Jose, California
New York City, New York	West Hollywood, California

We discovered that these cities have made progress in addressing the concerns surrounding STRs, especially regarding the collection of hotel taxes for STRs. However, they also continue to face challenges regarding regulation and enforcement. With an understanding of the decisions these cities made, Los Angeles may be able to navigate and negotiate a more successful STR model which incorporates the interests of businesses, entrepreneurs, travelers, residents, and the government. For more information about the cities that were interviewed, please see Attachment B, Cities with Short-Term Rental Experience.

STR Industry in Los Angeles

As a result of interviews with City departments about their current roles and responsibilities regarding the sharing economy, and STRs in particular, this Office concluded that several significant issues exist that will impact how the City moves forward with developing and implementing a sharing economy policy. These issues include but are not limited to the following:

- Size and presence of the STR industry
- STR restrictions and enforcement
- Economic impact and benefits
- Impact on rental housing

Although STRs are not legally permitted in most residential neighborhoods, the industry has still expanded rapidly throughout the City. The sheer size and presence of the industry mean that it will be difficult to ban STRs entirely. However, some Los Angeles residents remain opposed to the increase of STRs in their neighborhoods and are requesting that the City restrict the number of STRs and enforce the Zoning Code. The animosity toward STRs is so strong on the west side

that the Santa Monica City Council is considering an Ordinance which would reiterate the fact that vacation rentals are unlawful in Santa Monica.

On the other hand, available data shows potential measurable economic benefits tied to the STR industry, especially in the areas related to transportation, retail, food services, the arts, entertainment, and recreation. It should be noted that the 2015-16 Proposed Budget includes \$5 million in new revenue from Transient Occupancy Tax (TOT) related to STRs. The City is legally entitled to collect TOT from STR hosts, directly or via agreements with hosting platforms, while continuing to develop an overall STR policy. A separate report on this was issued by our Office concurrent with this report.

Community Engagement

Critical to the analysis of policy development is the need to obtain and integrate public input. The eight city governments included in this study all used a formal public input process which assisted in the development of their STR Ordinances and policies. This Office recommends that the City of Los Angeles use a similar public input process as the City develops its own STR Ordinances and policies. Given the sensitivity and broad nature of these issues, we recommend that the City utilize a neutral party to facilitate the public input process.

Therefore, we recommend that this Office be authorized to hire an independent community engagement consultant to provide community outreach services. To expedite this process, we are evaluating the ability to piggyback on either an existing City contract or a contract of similar nature at another governmental agency. If necessary we will issue a Request for Proposals (RFP) on an expedited basis. A working group will develop a scope of work for the community engagement consultant and oversee the contract and deliverables. The consultant must have experience in the following activities:

- Developing community outreach strategy
- Coordinating community outreach
- Conducting stakeholder interviews, public workshops, committees, and public hearings
- Developing and analyzing surveys
- Managing social media
- Researching and presenting economic and housing impact reports
- Bringing groups with opposing ideas together to produce solutions
- Developing solutions to community issues and presenting those solutions to decision-makers

The stakeholders may include renters, landlords, property owners, STR hosts, STR hosting platforms, neighborhood associations, visitors and tourists, renters associations, apartment associations, and City departments, among others. The community engagement consultant must have expertise in developing community outreach and managing public outreach for all of these groups and must also be sensitive to the issues that they face regarding STRs. The consultant needs to ensure that the stakeholders come to the table so that they can be part of the solution.

With the guidance of a skilled consultant, Los Angeles will be able to navigate and negotiate a successful model in which STRs, neighborhoods, and the City can coexist.

The Findings Section of this report includes a more comprehensive discussion of the STR industry in Los Angeles and the potential impacts to the City.

RECOMMENDATIONS

That the Council, subject to the approval of the Mayor:

1. Instruct the City Administrative Officer (CAO) to:
 - a. Convene a working group including the CAO, the Chief Legislative Analyst (CLA), and other departments as needed to develop the scope of work for the community engagement contractor, oversee the RFP process, manage the work of the contractor once selected, and report back to Council with recommendations on policy for the Short-Term Rental (STR) industry;
 - b. Engage a consultant to provide professional services for the development and execution of a community engagement process relative to the sharing economy in Los Angeles with an emphasis on the STR industry on an expedited basis;
 - c. Report back to Council with a recommendation to hire a community engagement consultant; and,
2. Instruct the CAO and the Office of Finance to work with the STR industry to collect the Transient Occupancy Tax (TOT) from STR hosts.

FISCAL IMPACT STATEMENT

There is a potential impact to the General Fund. If the recommendations in this report are adopted, the City could receive additional revenue from the Transient Occupancy Tax related to the Short-Term Rental industry.

FINDINGS

1. Basis for Report

The Council instructed the City Administrative Officer (CAO) to report on the impacts of the sharing economy (C.F. 14-0593). The Motion included the following aspects and issues to be considered:

- A. Potential economic benefits the sharing economy would have on the City of Los Angeles;
- B. Zoning, taxation, insurance and licensing in the City of Los Angeles as it relates to the sharing economy;
- C. Methods for reforming current policies that might be outdated or otherwise ill-suited for appropriate and effective regulation of sharing economy industries;
- D. Benefits of mapping City-owned assets to determine which assets have idling capacity and/or might be shared; and,
- E. The City's current efforts to reduce traffic, protect the environment, promote social cohesion within neighborhoods, and increase access to healthy foods and the feasibility of using or creating collaborative economy platforms around those efforts.

Points A through E are considered in more detail in Findings 3 through 7.

The Council also requested that this Office work with the Chief Legislative Analyst (CLA), the Planning Department (DCP), the Economic and Workforce Development Department (EWDD), the Department of Building and Safety (LADBS), the Board of Public Works (BPW), the Office of Finance (OOF), the Los Angeles Fire Department (LAFD), the Los Angeles Police Department (LAPD), and the City Attorney to prepare the sharing economy report. The CAO added the Housing and Community Investment Department (HCID) and Public Works Bureau of Engineering (BOE) to the list. Summaries of the input provided by these departments are found in Finding 8.

This Office researched the sharing economy to determine how best to respond to the five points in the Council Motion and found a wide range of shared concept businesses, including these three examples:

- TaskRabbit offers to share errands such as waiting in line, assembling furniture, performing minor home repairs, and other services.
- Members of Fon Communications share some of their home WiFi service and then may access Fon hotspots worldwide for free.

- The Lending Club is a peer-to-peer lending marketplace. The intention is to provide borrowers with lower rates. The Lending Club offers personal and business loans and financing for elective medical procedures.

This Office also considered whether or not to include an analysis of ride sharing businesses such as Lyft and Uber in this report. The California Public Utilities Commission (PUC) has regulatory and safety oversight of for-hire passenger carriers and is actively working on statewide regulations for ride-sharing businesses. Consequently, this Office recommends waiting until the PUC releases its findings before the City takes action on ride sharing businesses.

In addition to personal, communications, financial, and ride sharing services, the sharing economy also includes sharing clothing, food and food preparation, cars, bicycles, pet services, and many other types of businesses. It became apparent that to be useful, this report should concentrate primarily on one industry. After consulting with Council and the CLA, the CAO chose to focus on Short-Term Rentals (STRs). Some of the projects in the Motion, such as mapping City assets, are already being addressed by City departments. This Office recommends that the proposed community engagement consultant, with assistance from the proposed working group and City departments, study and address the remaining aspects and issues included the Council Motion in phases and as resources are identified. In addition, the working group could monitor the City's sharing economy projects and report on their status periodically to Council and the Mayor.

2. STRs in Los Angeles

A. Size of the STR Industry in Los Angeles

One reason to focus on STRs first of the many types of sharing economy businesses is due to the rapid growth of the STR industry in the Los Angeles region. The business is no longer limited to a small number of people sporadically renting out guest houses or spare bedrooms. According to a February 2015 article in the LA Times, Airbnb claimed that between 2013 and 2014, there were 4,500 hosts in Los Angeles. The City, however, cannot confirm the actual number of hosts and units because that data is not available to the City. Furthermore, according to the Wall Street Journal, Airbnb closed its most recent round of funding in October 2014 at a valuation of \$13 billion. HomeAway, another industry leader which purchased hosting platform VRBO in 2006, is now being publicly traded on the New York Stock Exchange.

Elected officials and residents have voiced concerns about the impact of such a large and unregulated industry on neighborhoods and on the government. The LA Times and CurbedLA reported in March 2015 that Venice is the most Airbnb-dense neighborhood with six to twelve percent of all housing units there being listed with Airbnb. However, cities are not able to confirm the number of hosts and units in an area because the addresses of the properties are not provided by the hosting platforms. As a consequence of the sheer size of the STR industry and a lack of information about where the STRs are actually located, it would be difficult and impractical simply to ban STRs from Los Angeles. The recommendations in this report, therefore, present an opportunity for residents, the STR

industry, tourists, and the City to engage in a thoughtful process to create a functioning model for the STR industry that considers the desired outcomes of all stakeholders.

B. Affordable Housing

One of the most frequent complaints about the STR industry relates to the perception that STRs are removing affordable housing from the marketplace. This Office found studies to support and refute this belief. One report about New York City states that the actual impact of STRs on rental housing is negligible. This Office recommends that the proposed community engagement consultant research and report on the true impact of STRs on affordable housing in Los Angeles. A brief overview of the Rent Stabilization Ordinance (RSO) and affordable or low-income housing in Los Angeles may provide useful context for the discussion.

Rent Stabilization Ordinance

The Council adopted the RSO in 1979. The RSO, which is found in the Los Angeles Municipal Code under Chapter XV, addresses allowable rent increases, the registration of rental units, legal reasons for eviction, and the causes for eviction requiring relocation assistance payment to the tenant. Under the RSO, both landlords and tenants have rights and responsibilities. The RSO states that landlords may raise rent once every 12 months by the annual allowable increase. In addition, landlords may raise the rent to any level after a voluntary vacancy. The HCID oversees and enforces the RSO in the City.

If an RSO unit becomes vacant, the landlord may set the rent to an amount the market will bear. The RSO does not limit the use of a rental unit. A landlord may choose to rent a vacant RSO unit as an STR, but the unit would continue to fall under the rules of the RSO. For example, a landlord may rent an RSO property as an STR for \$100 a night to Guest A and then charge \$200 a night to Guest B, as long as the guests or renters vacate the property according to the RSO rules. Therefore, STRs are not removing units from the RSO. The City could choose to modify the RSO to restrict the use of RSO properties to long-term residents. To do this, Council could instruct HCID and the City Attorney to prepare language to update the RSO. The proposed Ordinance would then be reviewed and adopted by Council. The Ordinance would also need to include enforcement for the proposed restrictions.

Affordable Housing

Affordable housing units assist a broad range of income levels. For example, to be eligible for a unit restricted at 50 percent of the Area Median Income, a family can earn up to \$40,750 annually based on 2014 income data. Affordable housing varies according to income restrictions, the number of bedrooms, or types of populations such as seniors. The funding to build affordable housing has restrictions about who can live in the units, and these restrictions are typically in place for more than 30 years. During that time, HCID monitors tenants applications to ensure the residents comply with all of the covenants

attached to the loan and grant agreements. Units built under these rules may not be used for STRs until the covenants expire; consequently, the STR industry cannot remove these units from the rental market.

3. Potential Economic Impacts

A. Transient Occupancy Tax

Please refer to Findings Section 4. B. for a discussion about the Transient Occupancy Tax.

B. Source of Additional Income

Many proponents of Airbnb and other home-sharing websites maintain that one of the most important and personal benefits of the STR industry is that it allows hosts to add an income stream to improve their lives. For example, the option to rent an extra room or even a couch could enable hosts to pay their rent or mortgage.

C. Travel and Tourism

According to some reports, since STRs are generally considered to be less expensive than a hotel, visitors tend to stay longer and spend more money which increases economic activity for non-hotel industries. Data from a report prepared by TXP, Inc. called *The Local Economic Impact of Short Term Rentals in Los Angeles* found that for every \$100 a traveler spent on lodging at an STR, that person also spent an additional \$97 on food, \$69 on local transportation, \$52 on recreation activities, and \$28 on retail shopping in the local economy. A copy of the TXP, Inc. report is found in Attachment C.

Short-term rentals are also viewed as a way for visitors to learn about a city's culture more intimately. The STRs allow visitors to live away from city centers and experience living as local residents. The SFGate, a website related to the San Francisco Chronicle, reports that many business travelers have recently opted to stay at STRs rather than hotels, citing that STRs "feel more like a home and that it makes more sense to have a place with a kitchen."

D. New Businesses

This Office found that some economists view the sharing economy as a method of doing business that generates revenues in many ways in addition to the Transient Occupancy Tax (TOT). Furthermore, the sharing economy could lead to the development of new types of businesses. For example, Arun Sundararajan, a New York University economist who studies the sharing economy, told a congressional hearing that the transition to a sharing economy "will have a positive impact on economic growth and welfare, by stimulating new consumption, by raising productivity, and by catalyzing individual innovation and entrepreneurship."

Conversely, some analysts view the economic benefits of the sharing economy with more skepticism. William Alden wrote that, "The so-called sharing economy is supposed to offer a new kind of capitalism, one where regular folks, enabled by efficient online platforms, can turn their fallow assets into cash machines ... But the reality is that these markets also tend to attract a class of well-heeled professional operators, who outperform the amateurs—just like the rest of the economy."

4. Zoning, Taxation, Insurance, and Licensing

A. Zoning for STRs in Los Angeles

Short-term rentals are defined as all or any portion of a residential building that is designed or used for occupancy for a period of less than 30 consecutive calendar days. In Los Angeles, STRs may be allowed in commercial zones and certain residential areas such as the R4 and R5 higher-density multi-family residential zones. The STRs are currently prohibited in agricultural zones and most residential areas including the R1 and other single-family residential zones. Attachment D contains a memo from the Department of City Planning which explains these restrictions. The definition of "Transient Occupancy Residential Structures" is found in the Planning and Zoning Code Article 2, Section 12.03 Definitions. Rules governing STRs may be found in section Article 2, Section 12.12.2A.1 (d) of the Planning and Zoning Code.

The LADBS enforces the Zoning Code in single-family homes while HCID enforces the Zoning Code in multi-family buildings. The City Attorney reviews any cases referred by LADBS or HCID. Violations are usually reported via complaints.

Upon action by the City Council, the City's Zoning Code can be amended to modify or eliminate the zoning provision that renders STRs in residential zones illegal. Other jurisdictions in the country have approached the issue of STRs in a variety of ways. Some cities have enacted Ordinances to allow STRs to exist in residential zones but only upon the satisfaction of certain requirements such as owner registration of an STR property with the city, the imposition of maximum night stays, a limitation on the number of guests at a time, and verification that the rental is the owner's primary residence.

B. Taxation

As described by the Los Angeles Municipal Code (LAMC) Article 1.7, Section 21.7, hotel guests pay the Transient Occupancy Tax (TOT), which is also known as a hotel tax, based on the rent charged by the hotel operator or host. The host then remits the TOT to the City's Office of Finance. The 2015-16 Proposed Budget includes \$5 million in new revenue from Transient Occupancy Tax (TOT) related to STRs. The City is legally entitled to collect TOT from STR hosts, directly or via agreements with hosting platforms, while continuing to develop an overall STR policy. Chicago, Malibu, Portland, San Francisco, and San Jose have negotiated agreements with Airbnb to collect and remit the hotel taxes for those cities. The CAO will release another report discussing the collection of the TOT (C.F. 14-0600-S89).

C. Insurance

This Office recommends that the topic of insurance be evaluated by a community engagement consultant, prioritized with additional input from Council and the CAO's Risk Management Division, and included as appropriate in a facilitated public outreach process.

D. Licensing

This Office recommends that the topic of licensing be evaluated by a community engagement consultant, prioritized with additional input from Council and the City Attorney, and included as appropriate in a facilitated public outreach process.

5. Reforming Current Policies

As the City evaluates how best to balance the presence of so many STRs with the Zoning Code restrictions, it is possible that the Zoning Code may need to be amended to permit the use of STRs in certain residential zones under particular circumstances. As mentioned above, Council has the authority to adopt changes to the Zoning Code. The STR industry may also need to update its policies regarding the number or types of units which are advertised on their platforms in a given area.

Other reforms to current policies may include how the City collects the TOT from STRs and how the City addresses enforcement of STR regulations. The need for and extent of any adjustments to policies will be developed as part of the recommended public outreach process.

6. Mapping City-Owned Assets

The sharing economy Motion requested the CAO to explore the benefits of mapping City-owned assets to determine which assets have idling capacity and/or might be shared. Other cities have identified properties which may have long-term development plans but in the short-term may be used temporarily for another purpose. For example, in September 2014, the City of Louisville, Kentucky activated underutilized space behind the facades of several buildings downtown to create a six-week-long pop-up beer garden, outdoor café, and event space. The intent was to provide the community with a unique event space and to demonstrate how the city and the community can interact to revitalize underused parts of the city. These types of short-term activities could provide economic and social benefits to Los Angeles and could establish Los Angeles as a nimble leader in the temporary use of its assets.

The City has a robust Geographic Information System (GIS) which could map the locations of City assets. Access to the GIS data is managed by the Public Works Bureau of Engineering (BOE). The Department of General Services (GSD) manages the City's assets but does not have a system to track all data about the City's properties and buildings. At the direction of Council, the City is engaged in a real estate asset management study (C.F. 14-1647) which, among other things, will result in the acquisition of a new Asset Management System (AMS) for the City.

Developing the AMS and mapping the City assets are the first steps. As the process moves forward, the CAO will work with the AMS contractors, GSD, BOE, and the Information Technology Agency to specify the requirements to allow the City to map the City's assets and identify properties that are idling. To take advantage of these properties, the City will also need to create an administrative process to manage and schedule the use of the assets. In addition, the City will need a public relations plan to promote the availability of the spaces. The CAO recommends that a community engagement consultant evaluate the priority of this project and the potential for success.

7. Reducing Traffic, Protecting the Environment, Promoting Social Cohesion with Neighborhoods, and the Feasibility of Using or Creating Collaborative Platforms around those Efforts

This Office recommends that the intersection of the sharing economy with traffic, the environment, neighborhood cohesion, and the development and use of collaborative platforms be evaluated by a community engagement consultant, prioritized with additional input from Council, Mayor, and impacted City departments, and included as appropriate in a facilitated public outreach process.

8. City Departments and the Sharing Economy

The Council instructed the CAO to work with City departments to report on the impacts of the sharing economy industries. Thus, this Office interviewed representatives from the City Attorney, CLA, DCP, EWDD, HCID, LADBS, LAFD, LAPD, OOF, BPW, BOE to identify how the departments might be impacted by STRs and by the sharing economy in general. The OOF collects revenue from those businesses which pay taxes. The Planning Department develops the Zoning Code which describes the limits on the location of STRs. The City Attorney assists DCP prepare modifications to the Zoning Code and advises the City regarding STRs and issues regarding the sharing economy. The EWDD offers services to sharing economy businesses if they are registered in Los Angeles. Other departments, such as LADBS, LAFD, and LAPD may respond to complaints about specific properties; however, they do not usually address enforcement of the STR portion of the Zoning Code. Summaries of the CAO interviews with the departments follow.

A. City Attorney

The City Attorney has been working on the issue of short-term rentals for several years. The Department provided the following statement for this report:

Under the City's current zoning code, short term rentals (less than 30 days) are prohibited in several zones in the city: agricultural, R1 and other single family residential zones, R2, RD and R3 lower-density multi-family resident zones, and RAS 3 zones. The Department of Building and Safety (DBS) is responsible for enforcing violations of the zoning code in single family homes, and the Housing and Community Investment Department (HCID) enforces the code in multi-family

buildings. We understand that HCID recently issued several notices of violation and may send us citations to enforce, however, we have not received any to date. The City Attorney's Office will timely review any cases referred by DBS or HCID.

The City's code can be amended, upon action by the City Council, to eliminate the zoning provision that renders short term rentals in residential zones illegal. Other jurisdictions in the country have approached the issue of short term rentals in a variety of ways. Some cities have enacted ordinances to allow short term rentals to exist in residential zones, but only upon the satisfaction of certain requirements such as owner registration of a short term rental property with the city, the imposition of minimum and maximum night stays, a limitation on the number of guests at a time, and a showing that the rental is the owner's primary residence (for example, San Francisco, San Jose, Chicago, Austin and Nashville). Other cities with no regulations allowing short term rentals, by default, allow Airbnb-type businesses to operate (for example, San Diego and San Antonio). Still other cities have banned short term rentals altogether (for example, Palo Alto, Santa Barbara, and Miami).

Many cities mentioned above collect Transit Occupancy Tax (TOT) from short term rentals, regardless of whether such rentals are allowed in the jurisdiction. Indeed, just like in the City of Los Angeles, anyone generating revenue from business activity, legally or illegally, is obligated to pay tax on that revenue. Several cities have agreements with Airbnb for the remittance of TOT. Pursuant to Council directive, the City is currently in negotiation with Airbnb to assume responsibility for the collection of TOT from Airbnb hosts.

B. Department of Building and Safety

The LADBS enforces violations of the Building Code but does not regulate activities inside structures. Inspectors do not enter buildings to verify who lives there; therefore, they cannot enforce the current STR regulations. If STRs become legal in residential neighborhoods, the City should consider how the safety of those units will be enforced, including the installation of smoke alarms, carbon monoxide detectors, pool covers, and other issues. Any enforcement requiring an inspection by LADBS would also need to be paid for by a fee or permit.

C. Chief Legislative Analyst

The CLA requests that the City's regulations address non-resident STR operators. Non-resident operators are hosts who rent out dwellings year-round as a business and do not live in the dwellings. Collection of the TOT is also a priority for the CLA. In addition, the CLA wants to ensure that any changes in the City's Ordinances also include meaningful and achievable enforcement.

D. Housing and Community Investment Department

While short-term rentals in certain residential areas may be in violation of the Zoning Code, they are not in violation of the RSO. Please refer to the discussion under Findings 2. B. regarding the RSO and affordable housing.

E. Economic and Workforce Development Department

The EWDD offers free and low-cost programs to assist small businesses that want to grow. The Department provides capital in the form of different loan products and assists businesses to prepare for loan and credit applications. In addition, through its BusinessSource Centers, EWDD connects businesses to technical support services to help organizations develop business and marketing plans. The BusinessSource Centers also provide tax advice and business training courses. These services are offered by EWDD to businesses which are part of the regulated economy, so to receive the services, companies need to be established in Los Angeles and be registered to pay taxes. Sharing economy businesses may take advantage of the services found at the BusinessSource Centers as long as they are willing to apply for a Business Tax Registration Certificate through the Office of Finance.

F. Los Angeles Fire Department

The LAFD inspects the exteriors of homes and apartments checking smoke alarms, fire extinguishers, and access into and out of the buildings. The LAFD is not authorized to enter homes or apartments for inspections. The LAFD is generally not involved in STR businesses or enforcement.

G. Los Angeles Police Department

The LAPD responds to complaints about the uses of properties, such as loud parties or cars parked illegally. The Department does not enforce the Zoning Code, and, therefore, is generally not involved with STRs.

H. Office of Finance

Under the LAMC, the OOF may legally collect TOT from STRs. The current system, however, relies on hosts to self-report the revenue they receive, which only a minority actually do, according to the OOF. The CAO will release another report discussing the collection of the TOT (C.F. 14-0600-S89) under separate cover for concurrent consideration with this report.

I. City Planning

The DCP released a memo dated March 19, 2014 to explain how the Zoning Code regulates STRs in Los Angeles, which is included as Attachment D. Generally DCP does

not respond to Zoning Code complaints. The LADBS enforces the Zoning Code. Any proposed updates to the Code are managed by DCP from the City Planning Commission to the Planning and Land Use Management Committee to Council. The City Attorney prepares Ordinances as needed and advises DCP staff on appropriate Zoning Code language. If the Zoning Code needs to be amended to address STRs, it is possible that the City may need an Environmental Impact Report (EIR) and/or a clearance from the California Environmental Quality Act (CEQA).

The Department has begun a five-year project called re:code LA to completely rewrite the Zoning Code. As part of the process, DCP received stakeholder input about the project. In March 2014, the Department released a draft summarizing the information which had been gathered. The following excerpt addressed the impact within single-family neighborhoods as reported by the community:

During the listening sessions held at the beginning of this project, many community members complained of unacceptable impacts from both permitted and non-permitted uses in single-family residential neighborhoods. Most of the complaints centered on the proliferation of short-term rentals and unregulated group living arrangements, many of which house more residents than the typical single-family home....

Short-term rental of single-family homes can also create impacts in single-family neighborhoods. Based on the City's Transient Occupancy Residential Structure ordinance, leasing units for fewer than 30 days is prohibited in single-family zones. Unless the City decides to set new policy on this issue, the new zoning code will simply clarify when and where short-term rentals are allowed.

J. Board of Public Works

The executive staff at the BPW does not have a direct connection with the sharing economy. However, they will confirm whether or not the Commissioners are involved in sharing economy activities and will report back to this Office.

K. Public Works Bureau of Engineering

The BOE Mapping and Land Records Division maintains the City's Geographic Information System (GIS) base maps and manages access to the City's GIS data through Navigate LA. The Bureau provided the following statement for this report regarding mapping City assets:

Assets within the City are purchased, owned and managed by each individual department and may be acquired with special funds or general revenue funds. If there are no legal restrictions on the use of those assets to participate in the sharing economy, then each department would need to identify the assets that they manage which are eligible to be shared, identify the idle times when the asset would be

available, and identify the appropriate uses, restrictions and requirements including liability insurance and waiver of damages for each facility that would be part of the sharing economy. With this information, the Bureau of Engineering can then map the assets in a form that can be published as a static map to be posted on the City's website, through a live interactive map embedded in the City's web page, or for internal use only as the City deems appropriate.

9. Analysis of STRs Other Cities

To understand how Los Angeles might best approach the rapidly evolving STR industry, the CAO examined eight cities around the country which have already investigated and/or passed legislation regarding STRs. Los Angeles can use the experiences of the cities as a place to start and as a guide. With an understanding of the decisions these cities made and their impacts, Los Angeles may be able to navigate, tailor, and negotiate a more successful model which incorporates the interests of businesses, entrepreneurs, tourists, residents, and government. For more information about the cities that were interviewed, please see Attachment B, Cities with Short-Term Rental Experience.

This Office conducted interviews with staff from the Planning, Building, Code Enforcement, Development Services, and Business departments of the following eight cities:

Austin, Texas	Portland, Oregon
Chicago, Illinois	San Francisco, California
Malibu, California	San Jose, California
New York City, New York	West Hollywood, California

This Office found that the cities had similar experiences similar regarding STRs and taxes, ordinances, enforcement, and public input.

A. Taxes

Generally, the cities agreed that STRs should be on a level playing field with hotels, and, therefore, the STRs should at a minimum be paying the local TOT or Hotel Occupancy Tax. The cities view the TOT as a significant source of revenue. In Chicago, Malibu, Portland, San Francisco, and San Jose, Airbnb has begun collecting the TOT on behalf of the hosts and remitting the funds to the cities. If the City of Los Angeles chooses to collect the TOT from STRs, this Office recommends developing similar agreements with the STR industry to collect and remit the TOT to the City.

B. New Ordinances and Enforcement

As of March 2015, six of the cities had updated their zoning regulations to allow STRs in residential neighborhoods. New York City is in the process of determining how to address STR regulations and enforcement, and West Hollywood chose to enforce the city's current Ordinances which prohibit STRs in residential neighborhoods.

Due to input from the public and a desire to preserve the availability of rental housing stock, the cities evaluated methods of limiting the number of STRs in residential neighborhoods. In the new Ordinances, most of the cities included caps on the numbers of units in a building and the number of days in a calendar year that dwellings may be rented out. Austin limited the number of STRs by a percentage per census tract. Enforcement of the new regulations has been challenging and most of the cities have not been able to develop a proactive enforcement program. Rather, they continue to respond to reported complaints of violations.

In addition, most of the cities interviewed adopted an STR permitting or registration program. Fees from the permits allow cities to inspect the properties every few years for compliance with safety regulations such as smoke detectors. However, the cities found that their registration programs have not been as successful as anticipated with very low numbers of applicants. Furthermore, these programs are incredibly difficult to enforce. The cities reported that they do not have the resources to track down all of the possible STRs to ensure they are registered, permitted and inspected.

Based on the experiences of the eight cities, the City of Los Angeles could choose to continue to enforce current zoning Ordinances and respond to STR violations based on complaints. However, due to the size of STR business and the difficulty of enforcement, it is unlikely that the City will be able to prohibit STRs entirely in residential neighborhoods.

The City could also follow the example of the cities in this study and consider the opportunities associated with amending the existing zoning Ordinances to expand the regulations for STRs. If the City chooses to allow STRs in residential neighborhoods, then a more effective and practical means of enforcement will need to be developed.

Copies of the STR Ordinances and related documents for each city included in the study may be found in Attachment B.

C. Number and Location of Properties

The cities found that it was difficult to acquire addresses or data about STR properties from the hosting platforms. This data could be used to estimate tax revenue, perform safety inspections, and manage the density and type of STRs in neighborhoods.

D. Public Outreach

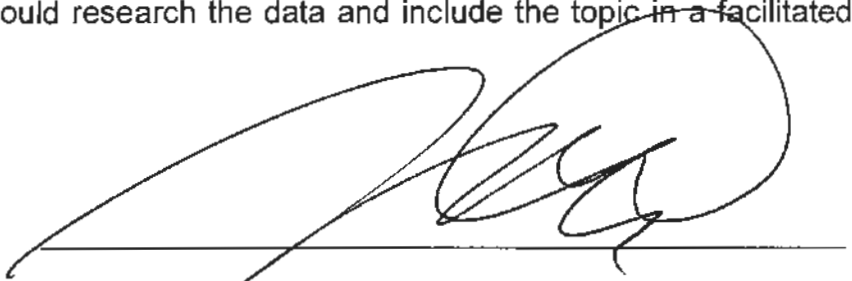
All eight cities held formal public hearings and meetings to hear directly from the public how STRs were positively or negatively impacting them, their neighborhoods, and their cities. Stakeholders included homeowners, renters, neighborhood associations, STR platform providers, lobbyists, apartment associations, Chambers of Commerce, hotel operators, visitors and convention bureaus, and city employees, among others. The opportunity for the public to provide input provided the cities with valuable information

as they navigated through the process to match the needs of residents, tourists, hosts, and the government.

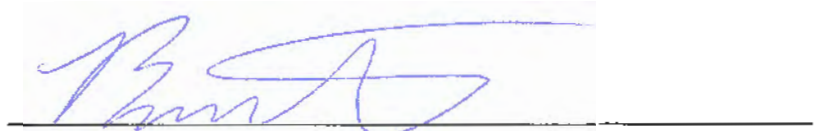
E. How STRs Affect Neighborhoods and Rental Housing

During the public hearings, neighbors of STRs and neighborhood associations reported that nuisances, which they associated with STRs such as transients, traffic, and potential crime, have disrupted their communities and negatively affected their property values. Housing advocates cited the increasing number of homes and apartments in their cities operating as STRs as an underlying cause for housing shortages and increases in rental prices. The public believe that landlords were evicting residents and converting units or homes into fulltime STRs. To determine the impact of STRs on the availability of housing stock in Los Angeles, a community engagement consultant should research the data and include the topic in a facilitated public outreach process.

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Attachments