

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: February 7, 2019

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Council File No. 14-1635-S2

14-1635-S7

Council District: All

To: The Mayor
The Council

Attn: Budget and Finance Committee

From: Richard H. Llewellyn, Jr., City Administrative Officer

Subject: **HOME-SHARING ORDINANCE - BUDGETARY AND FISCAL IMPACTS**

RECOMMENDATIONS

That the Council:

1. Authorize a Reserve Fund loan in the amount of \$485,609 to the Department of City Planning and subsequently transfer \$485,609 from the Reserve Fund to the Unappropriated Balance and appropriate therefrom to the City Planning Fund No. 100/68, Account No. 003040, Contractual Services, for short-term rental compliance services to be repaid from the Short-Term Rental Enforcement Trust Fund by June 30, 2020, subject to the approval of the Mayor;
2. Authorize by resolution, six positions consisting of one Senior City Planner, one City Planner, one City Planning Associate, one Management Analyst, one Senior Administrative Clerk and one Administrative Clerk, within the Department of City Planning for a term of April 1, 2019 to June 30, 2019 to support the Home-Sharing Program, subject to the approval of the Mayor and to position allocation by the Board of Civil Service Commissioners;
3. Instruct the Department of City Planning to use current year General Fund appropriations to fund the cost of the six positions, for the three-month term in an amount up to \$123,554, and the administrative fee study in an amount up to \$40,000, and report in the Year-End Financial Status Report on whether the Department is able to absorb this cost with General Fund savings or if the Department will require an appropriation to offset these costs;
4. Request that the City Attorney prepare and present an Ordinance to establish a Short-Term Rental Enforcement Trust Fund for the receipt all registration fees and Per-Night fees in support of Home-Sharing, retention, and disbursement of monies collected by the City to address the enforcement of Short-Term Rental activity in the City of Los Angeles; and

5. Request that the Department of City Planning work with the City Attorney and the City Administrative Officer on the development of an administrative fee study to ensure the appropriateness of the fees charged by the City for Home-Sharing related to a Per-Night fee prior to the execution of the administrative fee study contract.

DISCUSSION

During its consideration of the Home-Sharing Ordinance (C.F. 14-1635-S2), Council instructed this Office to report back on the budgetary and fiscal impacts, or any technical corrections for the Department of City Planning (DCP) report dated November 28, 2018, relative to the implementation and enforcement of the Home-Sharing Ordinance, with the feasibility of exemptions or a fee structure for economically disadvantaged groups, such as seniors or the disabled, participating in the Home-Sharing Program. On January 31, 2019, the DCP released a revised report (Report) regarding the implementation of the Home-Sharing Ordinance. This report is based on the revised report and recommendations.

Short-Term Rental Compliance Services

The DCP's Report requests \$485,609 to fund a contract for monitoring and verification services to assist the City with registration and enforcement requirements for the Home-Sharing Program. While the Report requests that the Council instruct the DCP to enter into a contract, a contract for this purpose has been submitted to the Mayor's Office for Executive Directive 3 review and approval. As the proposed contract is less than three years in duration, Council authority would not be required to execute the contract. However, as there is no funding budgeted for the contract, it cannot be executed until such funding is approved.

As the Home-Sharing Ordinance becomes effective on July 1, 2019, it is imperative that the contract be executed prior to that date to ensure the online registration portal is available on July 1, 2019. The annual cost of the proposed annual contract is \$1.4 million. The Department has indicated that \$485,609 is required to fund registration activities in 2018-19. It is recommended that a Reserve Fund loan in the amount of \$485,609 be authorized to fund the cost of the contract in the current year. It is anticipated that the DCP will be able to repay the loan through registration fees as the cost of the services required under the contract are eligible to be funded through the Home-Sharing Registration fees. The balance of the funds needed for the contract will be considered as part of the 2019-20 budget process.

Staffing

The DCP's revised report includes an interim budget request for funding and resolution authority for six positions consisting of one Senior City Planner, one City Planner, one City Planning Associate, one Management Analyst, one Senior Administrative Clerk, and one Administrative Clerk to implement the Home-Sharing Program. This Office recommends that the Department receive resolution authority for the six positions so that the Department can initiate the Home-Sharing Program. As the full extent of the resources required to administer and enforce the Program is currently unknown, this Office recommends a phased approach to staffing the Home-Sharing Unit. The six positions requested will enable the DCP to prepare outreach materials and

launch the online registration system as part of the first phase. The second phase would involve the enforcement of the Home-Sharing Ordinance. Resources for this phase would be considered as part of the 2019-20 budget process.

This Office recommends that the DCP use current General Fund appropriations to fund the cost of the six positions for the three-month period in an amount up to \$123,554 and report back in the Year-End Financial Status Report on whether the Department is able to fully absorb this cost with anticipated General Fund savings or if the Department will require an appropriation to offset this cost.

Subsidized Fees and Fee Study

The Home-Sharing Ordinance establishes the Home-Sharing Registration Fee at \$89 and the Extended Home-Sharing Registration (Administrative) Fee at \$850, amounts which the DCP considers to be partially subsidized by the General Fund. The fee for the Home-Sharing Registration Fee was set by the DCP at such a level to encourage current Home-Sharing Hosts to register with the new Home-Sharing Ordinance by keeping the registration fee low. The DCP initially recommended that the Extended Home-Sharing Registration (Administrative) Fee be set at \$1150, the full-cost recovery amount, but the amount was reduced to \$850 during the Planning and Land Use Committee's consideration of the Home-Sharing Ordinance. As the ongoing cost of administering the Home-Sharing Program is unknown at this time, it is difficult to ascertain how much the General Fund would be required to subsidize these fees.

As a means to off-set the subsidized amount, the DCP has proposed that a Per-Night fee be established at a rate to mitigate the cost of the registration fee subsidy in addition to the administration and enforcement of the Home-Sharing Ordinance. The Department has requested \$40,000 to pay for an administrative fee study to set the Per-Night fee. It is recommended that the DCP work with the City Attorney and this Office prior to the commencement of the fee study to determine the appropriateness of using the Per-Night fee to offset the subsidized portion of the Registration Fees. This Office also recommends that the DCP use current General Fund appropriations to fund the cost of the administrative fee study and report back in the Year-End Financial Status Report on whether the Department is able to absorb this cost with General Fund savings or if the Department will require an appropriation to offset this cost.

This Office was also instructed to report on the feasibility of proving fee exemptions or creating a fee structure for economically disadvantaged groups, such as seniors or the disabled, participating in the Home-Sharing Program. This Office is working with the City Attorney to determine whether this is feasible. Any program that reduces the amount of fees collected for Home-Sharing will cause a commensurable impact to the General Fund. We will continue to work with the City Attorney and DCP to provide options for the Council and Mayor.

Short-Term Rental Enforcement Trust Fund

The DCP Report requests that registration fees and Per-Night fees be deposited into the Department's Planning Case Processing Fund. The Home-Sharing Ordinance directs that fees shall be deposited into the Short-Term Rental Enforcement Fund. The Ordinance to create the Short-Term Rental Enforcement Trust Fund was referred to the Budget and Finance Committee and is currently pending before it. This Office recommends that registration fees and the Per-Night

fee, once established, be collected in the Short-Term Rental Enforcement Fund. The fees collected in the Short-Term Rental Enforcement Fund will be appropriated to a number of departments involved in the enforcement of the Home-Sharing Ordinance.

FISCAL IMPACT STATEMENT

This report recommends a Reserve Fund loan in the amount of \$485,609 to be repaid by the Short-Term Rental Enforcement Fund. If the anticipated revenue is not achieved in 2019-20 and the Reserve Fund loan is not repaid, there would be a General Fund impact of up to \$485,609. The cost for the positions recommended in this report is approximately \$123,554 for the three-month term and the cost of the Per-Night fee study is approximately \$40,000. This reports proposes that the Department fund these costs using anticipated General Fund savings. If the Department is not able to fund these costs, there may be a General Fund impact of up to \$163,554 that would be addressed in the Year-End Financial Status Report.

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