

Aerial view of The City of Los Angeles



CITY OF LOS ANGELES

Final Report

Home-Sharing Ordinance Fee Study

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1. EXECUTIVE SUMMARY

NBS performed a Fee Study (Study) for the City of Los Angeles' Department of City Planning (DCP or City) pertaining to the implementation of regulations established by the Home-Sharing Ordinance (HSO) adopted on December 18, 2018.

The purpose of this report is to describe the Study's findings and recommendations which support the establishment of a fee-for-service program that recovers up to, but not more than, the City's total estimated costs of providing these regulatory services.

The approach used in the Study and the subsequent results fulfill several important criteria that support the development of any fee program subject to California and local laws, including:

1. Compliance with California Constitution Article XIII C, Section 1, which establishes the definition of a tax versus charges exempt from the definition of a tax. The fees established in this Study are intended to cover regulatory costs to the City for the HSO Program, and therefore, may not exceed the reasonable cost of providing these services.
2. Discussion of the feasibility of various types of fees, such as registration and renewal fees, as well as the feasibility of a "Per-Night Fee" or other regulatory fee, that recovers the costs of the HSO Program fairly and equitably from the participants who are subject to these regulations.
3. Analysis and documentation regarding the estimated and reasonable costs of the HSO Program, and the translation of those costs into a fee or several fees for services.

As a result of NBS' research, data mining, financial modeling, and reporting, the findings presented in this report establish the maximum cost recovery amounts for the HSO Program and provide an opportunity for the City Council to adopt the recommended fee amounts that are in line with the City's desired cost recovery policies, either at or below 100% cost recovery.

1.1 Project Overview

The established HSO Program currently has several types of registration and renewal fees that are actively charged, including the following:

- Home-Sharing Registration and Renewal Fee: \$89
- Extended Home-Sharing Registration and Renewal Fee (Administrative): \$850
- Extended Home-Sharing Registration (Discretionary): \$5,660

In addition to evaluating the current cost recovery performance of registration and renewal fees, the Study also considered options for a fee mechanism that can recover the costs of providing other general regulatory efforts required to implement, administer, and enforce the HSO's regulations. The options considered include the feasibility of the following:

- Per-Night Regulatory Fee: A fee that applies to booking activity on a per night basis.
- Annual Regulatory Fee: A fee that applies annually to all registrants in the HSO Program.

The fees examined in this Study specifically excluded analysis of potential Transient Occupancy Tax (TOT) revenue, as well as fines and penalties imposed by the City's Administrative Citation Enforcement (ACE) Program for violations to its requirements or codes.

1.2 Summary of Findings and Recommendations

This Study submits the following findings which are substantiated in the following chapters of this report:

- A regulatory fee allows the City to recover costs it incurs while providing services to an individual or entity in response to that individual or entity's regulated action. The collection of fees reduces the burden on general City revenues that would otherwise be used to fund that individual service, and thereby, releasing those general revenues for services of greater at-large needs.
- User fees are only collected from individuals requesting or causing a service listed on the schedule of fees to be performed. Fees are avoided by refraining from the service or action subject to regulations. Fees are not imposed on the community without that underlying service or regulation triggering activity by City personnel.
- Fee amounts are derived from the organizational and cost structure of the City, primarily established through the City Budget adopted by the City Council.
- Resultant fee amounts are greatly influenced by the amount of time and resources spent by City personnel and/or contractors to provide services.
- Categories of fees are structured to most reasonably align the resulting fee amount to the individual service provided.
- The estimated average total cost per year required to implement and operate the HSO Program as determined by this Study is \$3.6 million. Approximately \$1.5 million of the costs are associated with the registration and annual renewal of Home-Sharing permits for services which are projected to recover 66% of the estimated costs of providing these services. The remaining \$2.1 million in HSO Program costs are associated with ongoing monitoring of active listings for compliance and general enforcement of HSO regulations.

As discussed later in Section 2.1, a fee may not exceed the estimated reasonable cost of providing the service or performing the activity, therefore NBS recommends that the registration and renewal fees for services recover up to and not more than, the cost of services established for each type of registration service analyzed in Section 5.2 of this report. NBS recommends City staff and City Council to consider establishing either a Per-Night Regulatory Fee or an Annual Regulatory Fee to recover costs other than those related to permit registrations and renewals.

Proposed fee amounts represent an implicit policy position regarding City cost recovery. When a fee is set equal to its full cost of service, the recommended fee implies that no general City revenues will be used to

subsidize the provision of that individual service. When a fee is set less than the full cost of service, a judgment has been made that the use of general City revenues to pay for a portion of that individual service is warranted and/or necessary. This report illustrates how NBS established the maximum fee amounts that reflect the City's costs of providing services, as well as the policy options for considering implementation of fee amounts at or below that ceiling.

City staff recommends that the current registration and renewal fees approved by City Council remain subsidized to encourage participation in the HSO Program. The estimated amount of subsidy per year provided by Council's policy direction for registration and renewal fees is approximately \$495,000. Providing a subsidy renders the HSO program less than 100% cost recoverable, and alternate methods for cost recovery will need to be determined to cover the cost recovery gap. More detail on this topic is discussed in Chapter 5 of this report.

Because the HSO Program is in the first year of implementation, NBS also recommends the City review and reassess the assumptions presented in this report not more than two years into the Program period in order to reset fees according to known quantities and trends in activity levels, as well as organizational needs, such as staffing and technology costs required to support the Program.

2. PROJECT APPROACH

In approaching any fee study, NBS assesses the unique conditions of the agency with which we work, applies a core philosophy, and selects methodologies that best fit the requirements of the individual agency. Given the diversity and ambiguities present in many aspects of city finance and policy, this is a necessary strategy since one-size-fits-all methods are not sustainable once they become owned by the agency served.

As discussed in this section, there is a legal foundation in place that provides the City with the authority to impose fees for the discretionary services and regulatory activities it provides. The cost of providing these services and activities can be reasonably calculated and fees can be structured in a manner that allows the City to recover all, or part, of the cost of providing these services. The calculation of the cost of providing services is an analytical effort that involves adopted and expected cost information and estimates of time required to perform a service or activity. Determining the targeted level of cost recovery from a new or increased fee is not an analytical exercise solely performed by NBS. It also involves agency-specific judgments linked to a variety of factors, such as existing City policies, agency-wide or departmental revenue objectives, economic goals, community values, market conditions, level of demand, and others. As long as the adopted fee is set at an amount that does not exceed the estimated, or reasonable, full cost of providing the service or activity requested, the City is in compliance with the legal framework currently in place.

2.1 Legal Foundation

It is generally accepted in California that cities are granted the authority to impose user and regulatory fees for services and activities they provide through provisions of the State Constitution. First, cities are granted the ability to perform broad activities related to their local policing power and other service authority as defined in Article XI, Sections 7 and 9.

More specifically, the type of fees DCP seeks to establish for the HSO Program fall under the California Constitution Article XIII C, Section 1 (e)(3) which states that a fee is not a tax if it is imposed for the reasonable regulatory costs of the local government.

Regulatory fees represent cost recovery opportunities entirely within the City's control. These are revenues which the City Council may, at its sole discretion upon public hearing, implement and/or modify without further public process or approval. In most cases, the only legal limitation on the establishment of these fees is that they may not exceed the estimated and reasonable costs incurred to provide the service or perform the function for which the fee is charged.

2.2 Project Approach

The fee study completed by NBS is a quantitative effort which compiles the full cost of providing governmental services and activities and translates those costs into proposed fee amounts best aligned with how services are provided. The following is a summary of the approach and analyses completed during this Study organized by Chapter:

Chapter 3: Analysis of Listings and Nightly Bookings – The objective of analyzing the current short-term rental listings and nightly bookings was to establish the maximum potential number of Home-Sharing and Extended Home-Sharing applicants, properties, and rental activities. The outcome of this task provided an analytical basis for understanding total potential program costs and revenues.

Chapter 4: Annual Cost of Service Analysis – The outcome of this task establishes the estimated and reasonable annual costs to the City of Los Angeles to administer and enforce the HSO Program. A cost of service analysis is a quantitative effort that compiles the full cost of providing services and activities. There are two primary types of costs considered, direct and indirect costs. Direct costs are those that specifically relate to an activity or service, including the real-time provision of the service. Indirect costs are those that support the provision of services, in general, but cannot be directly or easily assigned to a singular activity or service.

Chapter 5: Cost Recovery Evaluation – The full cost of services discussed in this Chapter presents the analytically justified maximum amount that may be recovered via an HSO registration, renewal, or “per-night” regulatory fee.

Chapter 6: Cost-Benefit Feasibility Analysis and Options – This Chapter discusses pricing objectives (i.e. full cost recovery or alternative levels of cost recovery). In addition, it includes a discussion of alternative fee structures that could enhance cost recovery results and/or fairness and equitability amongst HSO Program participants.

This chapter also discusses the results of the Comparative Fee Survey. The purpose of the comparative survey performed for the City of Los Angeles was two-fold: (1) To provide a sense of pricing and best management practices in the implementation of similar fee programs; and, (2) To understand the types of funding sources available for similar programs (e.g., fees, taxes, fines, etc.). This information can then be used by the City to gauge the impact of recommendations proposed in this report along with staff recommendations.

The following data sources were used to support the cost of service analysis and fee establishment phases of this Study:

- The list of the departmental personnel approved to support the HSO Program for DCP, Department of Building and Safety (DBS), and Housing Community Investment Department (HCID).
- Third-party vendor (Vendor) contract dated 5/20/2019, along with the results of the initial data scrape.
- City’s Cost Allocation Plan 41.

NBS did not audit or validate the City’s financial management and budget practices, nor was cost information adjusted to reflect different levels of service or any specific, targeted performance benchmarks. This Study has accepted the City’s documentation as a legislatively adopted directive describing the most appropriate and reasonable level of City spending. The consultants accept the City Council’s deliberative process and ultimate acceptance of the budget plan and further assert that through

that legislative process, the City has yielded a reasonable expenditure plan that is valid for use in setting cost-based fees.

Original data sets were also used to support the work presented in this Study. Consultants prepared questionnaires and conducted interviews with each department. In the fee establishment phase of the analysis, DCP supplied estimates of the average time spent providing a service or activity corresponding with the existing fees. NBS and department management reviewed and questioned responses to ensure the best possible set of estimates.

2.3 Data Sources

The following City-published data sources were used to support the cost of service analysis and fee establishment phases of this study:

- The City's Fiscal Year 2019-20 adopted budget for the HSO Program as provided by DCP's budget office.
- Various correspondence with City staff from multiple departments tasked with supporting the HSO Program and budgetary expenses for the HSO Program.
- A complete listing of all HSO Program budgeted personnel, salary/wage rates, regular hours, paid benefits, and paid leave amounts.
- Time estimates pertaining to the general annual roles and responsibilities of HSO Program personnel.
- Time estimates for the processing of each type of registration/application.
- Data scrape information as of May 2019 regarding the number of active listings and nightly bookings.
- The number of year-to-date registrations received since July 1, 2019 for each registration/application type.
- Other management level reviews and input related to average time on tasks for other activities based upon historical recollection where necessary.

3. ANALYSIS OF LISTINGS AND NIGHTLY BOOKINGS

The objective of analyzing the current short-term rental listings and nightly bookings was to establish the maximum potential number of Home-Sharing and Extended Home-Sharing applicants, properties, and rental activities.

3.1 Number of Current Short-Term Rental Listings

The City’s HSO Program establishes the following criteria upon which a current listing would be eligible to continue participating in the Home-Sharing Program:

- **Primary Residence:** Host must reside in property for more than 6 months per calendar year. If the host is a renter or lessee, prior written approval is required from the landlord. Accessory Dwelling Units (ADU) permitted after January 1, 2017 may not be used for Home-Sharing unless an applicant demonstrates the ADU is the applicant’s primary residence. ADU’s permitted prior to January 1, 2017 may be used for Home-Sharing even though they are not a primary residence.
- **Permitted Zoning:** In order to protect the City’s affordable housing stock, residence must not be subject to affordable housing covenants, Chapter 15 of the Los Angeles Municipal Code (Rent Stabilization Ordinance).
- **Rental Period:** Property must be rented for 30 consecutive days or less. Initial application allows host to rent for a maximum of 120 days in a calendar year. After the initial participation period, the host becomes eligible to apply for an Extended Home-Sharing permit, which allows for an unlimited number of rentable nights per year.
- **Rental Unit:** No Host shall offer, advertise, or engage in Home-Sharing in a non-residential building including, but not limited to, vehicles parked on a property, storage shed, trailer or any temporary structure.

Currently, the City of Los Angeles contracts with a third-party vendor to provide a data scrape of all major Hosting Platforms operating within the City. Based on the data scrape available through May 2019, along with direction from DCP staff, NBS estimated the total number of active short-term rental listings for the prior 12 months that are subject to HSO regulations.

TABLE 1. ESTIMATED NUMBER OF ELIGIBLE LISTINGS

Criteria	Total Listings	Variance	Total Nightly Bookings	Variance	Notes
Vendor Data Scrape - Total Records	37,195		1,709,715		[1]
"Active" Listings	35,060	(2,135)	1,708,560	(1,155)	[2]
Unique Records	27,554	(7,506)	n/a	n/a	[3]
Exclude Non-Primary Residences	22,743	(4,811)	1,420,236	(288,324)	[4]
Exclude Multi-Family RSO units	14,171	(8,572)	877,852	(542,384)	[5]
Eligible Rental Unit Property Types	14,012	(159)	865,315	(12,537)	[6]

The following notes further explain the filtering criteria used to compile the information in Table 1:

[1] The City of Los Angeles provided a data scrape compiled by a third-party vendor dated May 2019. Total number of listing records in original data scrape was 37,195; total number of nightly bookings in the original data scrape was 1,709,715. This figure represents the Vendor's modeled result for the number of nights that the listing/rental units were occupied over the last 12 months.

[2] The Vendor defines an "active" listing as a listing that has been created, has received a review, or has had a calendar update within the past 12 months. Based on this criterion, 2,135 listings and 1,155 nightly bookings were removed from the overall total.

[3] Since hosts often advertise their rentals on multiple hosting platforms, the Vendor performed an initial check to identify duplicate listings. Based on the data provided, 7,506 listings were removed from the remaining 35,060 "active" listings because the Vendor designated them duplicate listings. Since a residence can only be rented out on one platform at a time, even if it is advertised on multiple platforms, duplicate listings were not removed from nightly bookings.

[4] The data provided by the third-party vendor was not able to identify owner-occupied/primary residency. To estimate the total eligible listings NBS reviewed previous City staff reports and used the estimates established within these reports to make further exclusions. Planning Report 14-1635-S2 20171020 (pg. 4) states that 84% of the listings on Airbnb are primary residences. In the DCP Report on Implementation 14-1635-S7 20190131 (pg. 13), Airbnb states that most hosts are primary residents, while VRBO states most of their hosts are non-primary residents (pg. 13). Using these figures, NBS excluded 16% of all Airbnb listings and 84% of all VRBO/HomeAway listings which equated to approximately 4,811 listings. By applying the same average exclusion rate of 83% to the remaining nightly bookings, an additional 288,324 nights were excluded.

[5] Similar to the exclusion of non-primary residents, the Vendor data was unable to determine which units were part of the Rent Stabilization Ordinance (RSO). After reviewing past City staff reports, an additional 8,572 listings and 542,384 nights were excluded as Planning Report 14-1635-S2 20171020 (pg. 3) stated that 80% of multi-family units in Los Angeles are subject to the Rent Stabilization Ordinance.

[6] Based on rental unit eligibility, as well as direction provided by City staff, the following types of property listings were removed from the total remaining listings/nightly bookings: Bus, Camper/RV, Campsite, Cave, Hotel, Hotel Suites, Hut, Recreational Vehicle, Tent, Tipi, Treehouse, and Yurt.

After excluding the items listed above, NBS concludes that approximately 14,000 properties and 865,000 nightly bookings identified in the Vendor data scrape would be eligible to participate in the Home-Sharing Regulatory Program.

Though the data scrape analysis used information current as of the July 1, 2019 HSO start date, it is important to note that the short-term rental market is constantly changing. Owners of eligible rental units included in the original data scrape could potentially be casually or seldomly renting out their property and may not materialize into an actual registered participant in the HSO Program. While this data reflects the best "snapshot in time" available for this analysis, NBS also recommends that the City continue to revise its estimates and projections as actual data is received.

3.2 Current Annual Nightly Booking Activity

To estimate the current level of rental activity subject to HSO regulations, NBS further filtered the data scrape of eligible listings from Section 3.1 into ranges of nights hosted per listing within the last year.

TABLE 2. HOME-SHARING LISTING AND NIGHTLY BOOKING ACTIVITY

"Eligible" Short-Term Listings and Nightly Bookings				
Nights Hosted	Number of Listings	% of Listings	Number of Nightly Bookings	% of Nightly Bookings
0 to 30 nights	8,172	58%	48,964	6%
31 to 90 nights	2,522	18%	181,712	21%
91 to 120 nights	827	6%	107,205	12%
121 to 180 nights	1,297	9%	224,490	26%
Over 180 nights	1,194	9%	302,944	35%
Total	14,012	100%	865,315	100%

Based on HSO criteria, approximately 865,000 nightly bookings per year fall under HSO regulations.

3.3 First-Year Estimated Registration Activity

To register for Home-Sharing, a host must file an application and pay a registration fee with the Department of City Planning per the specifications of the Home-Sharing Ordinance. Each registration is valid for 1 year from the date of issuance. For hosts renting their residence for 120 days or less per year, registration may be renewed annually by the host if they pay the applicable renewal fee and have adhered to the HSO guidelines.

For hosts desiring to rent their residence out for greater than 120 days per year, an Administrative Extended Home-Sharing application must be filed and a corresponding fee for service paid. Like the standard Home-Sharing registration process, hosts must renew their registration annually. Should a host not comply with the qualifications laid out in the HSO, a Discretionary Review of an Extended Home-Sharing application and fee for service is required.

Because the Home-Sharing Ordinance is a new regulatory program, it is difficult to estimate the number of permits that will be issued each year, and similarly, how much of the current rental activity will increase or decrease for registered hosts each year thereafter.

It is unknown how many of the existing 14,000 eligible listings will comply with and register for the HSO Program, and how many months or years it will take to gain close to 100% registration of active listings in the program. For example, some of the listings could decide not to register or discontinue renting rather than register.

Between the start of registration activities on July 1, 2019 and January 31, 2020, approximately 5,963 hosts registered in the Home-Sharing Program, which is about 43% of the estimated 14,000 eligible listings. During this same period 137 hosts registered for an Extended Home-Sharing permit. Based on monthly registration data provided by the City, Home-Sharing registrations began to slow down around December 2019, while Extended Home-Sharing registrations began to climb. Assuming registration

volume and trends remain constant, NBS projects that an additional 1,463 Home-Sharing applications and 228 Extended Home-Sharing applications will be submitted by June 30, 2020. This would result in a total of 7,426 initial registrations which means that approximately 53% of the total estimated eligible listings would be participating in the program.

TABLE 3. HOME-SHARING REGISTRATION PROJECTIONS

Registration Type	July 1, 2019 - January 31, 2020	February 1, 2020 - June 30, 2020	Total
Home-Sharing Registration	5,963	1,463	7,426
Extended Home-Sharing Registration	137	228	365
Total	6,100	1,690	7,790

NBS did not attempt to project any type of growth pattern in registrations or nightly activity beyond year 1, though it can be assumed that registrants from Year 1 will become renewals in Year 2 and beyond. For purposes of this analysis, this report proposes the maximum adoptable fee amounts for the HSO Program be based on the initial start of the program and its activity in Year 1. As discussed in Chapter 7, a new fee program should always be re-evaluated after one to two years of data collection and as more becomes known about the needs for the program’s on-going operations.

3.4 First-Year Estimated Nightly Booking Activity

As noted in Table 2, of the 14,000 eligible listings identified, 58% come from Hosts renting their property 0 to 30 nights per year, 18% from those renting 31 to 90 nights per year, and 6% from those renting 91 to 120 nights per year. In total these figures demonstrate that 82% of total eligible listings come from Hosts renting their properties for 120 nights or less per year. It can be concluded that these Hosts will continue to operate under the same level of rental activity and would likely renew under the standard permit, rather than apply for an Extended Home-Sharing permit. When comparing the total number of eligible listings, to the total number of nightly bookings in Table 2, it is important to note that while Hosts renting 120 nights or less represent 82% of the total eligible listings, they only account for 39% of total nightly bookings.” Though a smaller number of listings would be eligible to apply for an Extended Home-Sharing permit (18%), this group includes a larger portion of nightly bookings at approximately 61%. Using this data, it can reasonably be assumed that the initial listings that register will be comprised of those with the highest number of nightly bookings, while those who rented out their residences for 30 nights or less will join the program at a slower rate.

Based on the data provided, it is estimated that approximately 86% of all eligible nightly bookings will occur in Year 1 (743,666) as shown in Table 4 below.

TABLE 4. ESTIMATED POTENTIAL NIGHTLY BOOKINGS

Estimated Potential Nightly Bookings		
Nights Hosted	Number of Eligible Nightly Bookings	Estimated Nightly Bookings - Year 1
0 to 30 nights	48,964	-
31 to 90 nights	181,712	109,027
91 to 120 nights	107,205	107,205
121 to 180 nights	224,490	224,490
Over 180 nights	302,944	302,944
Total	865,315	743,666

This figure assumes that 100% of listings with greater than 90 nights are registered in the HSO Program and approximately 60% of those with between 31 to 90 nights of activity. It can be concluded that nightly bookings will remain the same for the first few years of the program and will gradually increase as time goes on.

4. ANNUAL COST OF SERVICE ANALYSIS

NBS completed a Cost of Service Analysis to establish the annual estimated and reasonable costs incurred by the City of Los Angeles to administer and enforce the Home-Sharing Ordinance. During this process, NBS identified all direct costs, as well as various types of indirect costs. Definitions of these cost components are as follows:

- **Direct Costs** – Includes salaries and benefits of personnel, as well as specific contract services or operational supplies dedicated directly to the support of the HSO Program.
- **Program-level Indirect Costs** – These are costs incurred to support the provisions of HSO Program services that are not readily and specifically identifiable as direct costs. Examples include administrative support, general customer service activities, code/policy/standards maintenance, training, and management. Outside of discrete functions, indirect costs may also represent an allocated share of general materials and supplies.
- **City-wide Indirect Costs** – These are expenses, both labor and non-labor, defined in the current version of the City’s overhead Cost Allocation Plan (CAP 41),¹ which determines the appropriate share of administrative, support services, and/or governance costs that are outside of the department(s), but provide primary HSO Program services.

NBS interviewed staff from the Department of City Planning, which is primarily responsible for registration and renewal activities, as well as overall administration of the HSO Program. In addition, NBS also interviewed other key staff from supporting departments, including Building and Safety (DBS), Housing Community Investment Department (HCID), Office of Finance, and the Attorney’s Office. Any applicable and identifiable costs from these departments were also included in the Cost of Service Analysis.

4.1 Cost of Service Analysis – Department of City Planning

The Department of City Planning (DCP) is responsible for implementing and administering the City’s Home-Sharing Program. Initially, the Department was approved for six (6) positions that were to perform core functions needed to establish and implement the Ordinance. Once the Ordinance became effective on July 1, 2019, the role of these staff members transitioned into facilitating the registration and enforcement of all home-sharing activity in the City. In addition to the six positions created for the HSO Program, the Department requested NBS to include additional staff costs pertaining to administrative support for the HSO Program, as well as costs associated with the management of the Extended Home-Sharing Program.

The City of Los Angeles also contracts with a third-party vendor to provide consulting and software services related to permitting, compliance monitoring, and enforcement of the City’s ordinances, regulations, and tax rules associated with short-term rentals. The contract was split between a “preparation phase” and an “implementation phase.” The preparation phase consisted of tasks related to the establishment of data sharing protocols with enforcement agencies, creating a new online and

¹ Cost Allocation Plans are maintained and updated by the Office of the Controller.

mobile-based application/registration system that adheres to HSO requirements, and establishment of form letters and processes to issue warning letters. Costs for the preparation phase were reasonably amortized and included in this Cost of Service Analysis. During the implementation phase, the Vendor will begin actively monitoring Hosting Platforms and providing additional support services to the City. The implementation phase portion of the costs of service is considered an annual, on-going, operational cost of the HSO Program.

Table 5 shows DCP’s estimated total annual cost of \$3.9 million to provide HSO Program services.

TABLE 5. ANNUAL COST OF PROVIDING HSO PROGRAM SERVICES - PLANNING

Expenditure Type	Total Annual Cost
Labor Expenditures	
Administrative Clerk	\$ 47,379
City Planner	124,962
City Planner	124,962
City Planning Associate	89,348
City Planning Associate	89,348
City Planning Associate	89,349
Management Analyst	93,002
Principal City Planner	183,103
Senior Accountant	83,877
Senior Administrative Clerk	66,393
Senior City Planner	147,960
DCP Fringe Benefits (45.03%)	513,199
Subtotal DCP Labor Expenditures	\$ 1,652,882
Non-Labor Expenditures	
Operational Services and Supplies	\$ 33,058
Vendor Annual Contract (Implementation Phase):	
Mobile-Enabled Online Registration and Tax Collection Forms	165,415
Address Identification	575,413
Compliance Monitoring	227,876
Rental Activity Monitoring and Tax Collection Support	303,834
24/7 STR phone hotline and online complaint forms	182,287
STR related advisory services	2,000
DCP - Vendor - Initial Program Setup (Preparation Phase)	161,869
Subtotal Non-Labor Expenditures	\$ 1,651,752
CAP 41 Overhead Costs	
Department Administration & Support (24.55%)	\$ 279,792
Central Services (24.37%)	277,741
Subtotal CAP 41 Overhead Expenditures	\$ 557,533
DCP TOTAL	\$ 3,862,167

Based on interviews with DCP staff, the analysis also segregated the total annual cost of service into four primary service categories for the HSO Program: (1) Program Administration; (2) Registration and Renewal Activities; (3) Monitoring and Code Enforcement; and, (4) Case Processing. Each primary service category is defined as follows:

- **HSO Program Administration** – Staff time and/or costs devoted to overall administration of the HSO Program. This includes responding to phone calls and public inquiries, as well as an amortized valuation of the third-party vendor’s initial program set-up costs.
- **Registration and Renewal Activities** – Costs pertaining to registration/renewal permit processing activities.
- **Monitoring and Code Enforcement** – Costs associated with monitoring routine data submitted by the Vendor and initial follow-up activities required to obtain or maintain general compliance with HSO regulations.
- **Case Processing** – Some staff positions will multitask between DCP general application and entitlement processing for development and zoning approvals and the HSO Program. Costs associated with staff time that processes general planning application and case work will be excluded from the calculation of any HSO Program fees and instead be recovered through DCP’s other application processing fees.

For each of the staff members assigned to the HSO Program, Department staff allocated anticipated annual time to be spent across these activities, as well as provided information about the detailed costs associated with the Vendor’s role in supporting the Program with technology systems and data.

Segregation of costs into primary service categories was recommended by NBS as the optimal approach to considering which costs should be funded by registration and renewal fees versus other types of fees and charges, as discussed later in *Chapter 5. Cost Recovery Evaluation*.

Table 6 below shows the total cost summary for DCP, broken down into the primary cost components (labor, non-labor, overhead) and primary service categories (i.e., program administration, registration and renewal, monitoring and code enforcement, and case processing) as discussed above.

TABLE 6. ALLOCATION OF ANNUAL HSO PROGRAM COSTS - PLANNING

Service Cost Category	Total Cost Summary			
	Labor	Non-Labor	Overhead	Total
HSO Program Administration	\$ 564,785	\$ 13,296	\$ 190,507	\$ 768,588
Registration and Renewal Activities	656,949	586,821	221,595	1,465,365
Monitoring and Code Enforcement	25,720	1,043,527	8,676	1,077,923
Case Processing (Fund 52D)	405,428	8,109	136,755	550,292
DCP Total	\$1,652,882	\$1,651,752	\$ 557,533	\$3,862,167

As shown, total DCP costs per year is approximately \$3.9 million. Of the primary service categories, approximately 48% of all annual costs are associated with overall Program Administration, Monitoring, and Code Enforcement activities. Registration and Renewal activities account for approximately 38% of the total annual costs and would require annual revenue of in the amount of \$1.47 million to be fully cost recoverable.

4.2 Cost of Service Analysis – Supporting Departments

The departments of Building and Safety (DBS), Housing Community Investment (HCID), Office of Finance, and the Attorney’s Office were initially identified as providing active support services for the HSO Program. The HSO Program will require monitoring and enforcement services from DBS and HCID, as well as administrative support services from the Office of Finance and the City Attorney. NBS interviewed each of these departments to determine the cost of resources required.

4.2.1 MONITORING AND ENFORCEMENT SUPPORT

As stipulated in the HSO, no host may participate in Home-Sharing unless all advertisements clearly list the City-issued Home-Sharing registration number. To ensure compliance with this requirement, the City’s third-party vendor will continuously monitor hosting platforms and send a list of all listings missing Home-Sharing registration numbers to DCP for review and verification.

DCP staff will review the electronic screen shot of each listing in question and confirm that it is missing a registration number and then authorize the Vendor to issue a warning letter to the host requiring compliance with the Ordinance. After two (2) warning letters have been issued to the host, an electronic data package is routed to DBS for all single-family listings, and to HCID for all multi-family listings for any host who fails to comply with the HSO provisions. The electronic data package includes the screen shot of the advertisement, as well as copies of the warning letters issued. DBS and HCID staff must quickly verify non-compliance and issue an ACE citation.

DBS and HCID are the enforcement agencies for the zoning code and are responsible for issuing ACE citations for municipal code violations, including violations of the Home Sharing Ordinance. The ACE Program is an administrative process, in which a determination is made as to whether the citations and the accompanying fines levied by DBS and HCID should be upheld. The ACE program is entirely separate from the HSO and has its own staff and funding in accordance with its role in the code enforcement citation process. Citations, fines, and penalties may be applied through the City’s ACE program for truly non-compliant registrants and listings that require efforts beyond the general regulatory efforts of the program.

Based on staff interviews, HCID estimates the need for one (1) Assistant Inspector III level position to handle anticipated monitoring and code enforcement related activities. In addition to personnel costs and overhead, detailed costs associated with HCID’s role in supporting the Program with technology systems are also included. Table 7 shows that the estimated annual cost of providing HSO Program services for HCID is approximately \$157,000 per year.

TABLE 7. ANNUAL COST OF PROVIDING HSO PROGRAM SERVICES - HCID

Expenditure Type	Total Annual Cost
Labor Expenditures	
Assistant Inspector III (1 FTE)	\$ 69,556
HCID Fringe Benefits (50.02%)	34,792
Subtotal HCID Labor Expenditures	\$ 104,347
Non-Labor Expenditures	
Lease Calculation (15%)	\$ 10,433
Upfront costs for setting up database sharing between depts	5,000
Subtotal Non-Labor Expenditures	\$ 15,433
CAP 41 Overhead Costs	
GASP (22.86%)	\$ 15,900
Central Services (30.38%)	21,131
Subtotal CAP 41 Overhead Expenditures	\$ 37,031
HCID TOTAL	\$ 156,812

To handle monitoring and code enforcement related activities for the HSO, DBS anticipates the need for one (1) Systems Analyst level position. The following table shows DBS' estimated annual full cost of providing services.

TABLE 8. ANNUAL COST OF PROVIDING HSO PROGRAM SERVICES - DBS

Expenditure Type	Total Annual Cost
Labor Expenditures	
Systems Analyst (1 FTE)	\$ 90,734
DBS Fringe Benefits (47.61%)	43,198
Subtotal DBS Labor Expenditures	\$ 133,932
CAP 41 Overhead Costs	
Department Administration & Support (29.08%)	\$ 26,385
Central Services (14.94%)	13,556
Subtotal CAP 41 Overhead Expenditures	\$ 39,941
DBS TOTAL	\$ 173,874

As shown here, total DBS costs for monitoring and code enforcement of the HSO Program per year is approximately \$174,000. In addition to HSO monitoring and code enforcement, DBS also responds to

building code violation complaints requiring criminal prosecution and recovers associated costs through their separate list of fees and fines for these types of violations. Building code violations requiring administrative prosecution require more hours to complete review of the complaint and follow a criminal processing procedure through ACE.

4.2.2 ADMINISTRATIVE SUPPORT

In addition to Monitoring and Code Enforcement support, the HSO program also receives Administrative support from the Office of Finance and the Attorney’s Office. NBS interviewed each of these departments to determine whether additional resources would be required to support the new HSO Program.

The Office of Finance independently handles all Transient Occupancy Tax (TOT) activities for the City, including the registration of new TOT certificates and collection of all TOT revenue, which is required of all hosts to comply with the HSO requirements. Finance does not anticipate the need for additional resources from the HSO Program. Other annual costs of support to the departments of City Planning, HCID, and DBS are covered in the City’s CAP rate discussed in the beginning of this chapter.

The Attorney’s Office is responsible for handling the ACE violations process and their annual costs will be covered via fines, penalties, and other cost recovery mechanisms specific to the ACE Fund. Any general legal support provided by the Attorney’s Office to the Department of City Planning, HCID, and DBS are covered in the City’s CAP rate.

In summary, none of the administrative support departments that NBS interviewed identified the need for additional resources from direct funding through the Program’s fees for services.

4.3 Cost of Service Analysis – Summary

The table below represents the estimated total annual cost of service calculation for DCP and supporting departments for the HSO Program.

TABLE 9. ANNUAL COST OF PROVIDING HSO PROGRAM SERVICES - SUMMARY

Service Cost Category	Total Cost Summary			
	DCP	HCID	DBS	Total
HSO Program Administration	\$ 768,588	\$ -	\$ -	\$ 768,588
Registration and Renewal Activities	1,465,365	-	-	1,465,365
Monitoring and Code Enforcement	1,077,923	156,812	173,874	1,408,609
Case Processing (Fund 52D)	550,292	-	-	550,292
Total	\$3,862,167	\$ 156,812	\$ 173,874	\$4,192,853

Case Processing (Fund 52D) costs are associated with shared resources that perform routine, current planning work and are not recommended for recovery in HSO Program fees for service. Therefore, the total annual cost of the HSO Program that could be recovered through fees for regulatory services is approximately **\$3.6 million**.

5. COST RECOVERY EVALUATION

As we will discuss in this Chapter, the City Council intentionally set the current registration fee amounts lower than the cost of providing services in an effort to encourage HSO Program compliance. The intent behind this decision was that the City could potentially establish a “Per-Night Fee” that would cover the cost of the registration fee subsidy and render the administration and enforcement of the Home-Sharing Ordinance fully cost recoverable. This Chapter proposes the maximum “Per-Night Fee” amount that may be charged to ensure full HSO Program cost recovery.

5.1 Current Fee Program

Upon adoption of the Home Sharing Ordinance, the City Council adopted initial registration and application fees and provided important policy and procedure direction regarding how the HSO Regulatory Program should be funded. In general, the City Council maintained that the HSO Program should recover 100% of the costs of providing all the regulatory services required.

To encourage and ensure participation in the HSO Regulatory Program, registration and renewal fees for both regular Home-Sharing and Administrative Extended Home-Sharing permits were adopted at subsidized fee amounts relative to the City’s estimated costs of providing these services. Should a host require a Discretionary Review of their Extended Home-Sharing application, the fee amount set was intended to be full cost recovery.² It was also proposed that a “Per-Night Fee” could be charged for active nightly bookings to cover the remainder of the registration, administration, and enforcement costs of the HSO Program. Table 10 summarizes these current fee amounts and intended budgetary impacts:

TABLE 10. CURRENT REGISTRATION APPLICATION AND RENEWAL FEES

Type of Application	Fee Amount	Intended Budgetary Impact
Home-Sharing Registration (Application or Renewal)	\$ 89	Subsidized
Extended Home-Sharing Registration - Administrative (Application or Renewal)	\$ 850	Subsidized
Extended Home-Sharing Registration - Discretionary	\$ 5,660	Full Cost Recovery
Per-Night Fee	TBD	Cover remainder of administration and enforcement costs

The current registration application fee for Home-Sharing is \$89 and is valid for one (1) year from the date of issuance. Registration may be renewed annually by the host if they rent their residence for 120 days or less a year and pay the applicable renewal fee of \$89. Hosts must also adhere to HSO guidelines to be eligible to remain in the HSO Program.

For hosts desiring to rent their residence out for more than 120 days per year, an Administrative Extended Home-Sharing application must be completed. The Administrative application fee for an

² See DCP Report on Implementation 14-1635-S7 20190131 for more information

Extended Home-Sharing permit is currently \$850 which the hosts must renew annually and pay the renewal fee of \$850.

Should a host not comply with the requirements laid out in the HSO guidelines, a Discretionary Review of an Extended Home-Sharing application is required. The current fee for this process is \$5,660.

The amount of a potential “Per-Night Fee” is shown as “TBD” in Table 10 and is one of the primary aspects of the subsequent sections of this report.

5.2 Program Registration and Renewal Fees

In order to evaluate the current HSO registration fees established by the Ordinance, this Study reviewed the specific actions taken on the part of City staff to provide registration and renewal activities. Because labor is the primary underlying factor in these activities, the Study established the full cost of services expressed as a fully-burdened cost per labor hour rate. NBS used this hourly rate as the basis for further quantifying the average full cost of providing registration and renewal activities. In order to determine the fully-burdened labor rate, two factors were considered: (1) the full costs of service; and, (2) the number of hours available to perform those services.

The full costs of service were quantified through the earlier steps described in this analysis. As shown in Table 9, the Cost of Service Analysis identified approximately \$1.47 million in total annual costs for registration and renewal services. The City also supplied NBS with the total number of paid labor hours for each position in the HSO Program, of which approximately 8,009 hours per year are estimated for registration and renewal services. The total estimated annual cost of registration and renewal services divided by the estimated annual hours available for these services produces an average hourly cost of \$183 per hour, as shown in Table 11.

TABLE 11. HOURLY COST OF REGISTRATION/RENEWAL ACTIVITIES

Activity	Total
Estimated Annual Cost of Registration and Renewal Activities	\$ 1,465,365
Estimated Annual Hours Available for Registration and Renewal Activities	8,009
Hourly Cost	\$ 183

When applied at the individual fee level, the fully-burdened hourly rate is used to calculate the maximum cost of providing each service. To estimate the Average Labor Time per service or activity, NBS met with DCP staff and provided a framework in which to discuss the process steps and level of effort required to provide each service. City staff documented the process steps required for each activity, then workflows were created to ensure that all touchpoints of the registration and renewal process were considered. Using the established framework, City staff estimated the average amount of time (in minutes and hours) it would take to complete a typical occurrence of each service or activity.

Implementing the HSO is a new process for DCP. As such, time estimates initially proposed by DCP staff were reconsidered and revised throughout the Study as the volume of initial registrations increased and estimated processes became actual registrations. Based on this review, the City reconsidered its time estimates until both parties were comfortable that the fee model reasonably reflected the average service level provided by the City. Then, time estimates were applied to the fully-burdened labor rate to yield an average total fee for registration and renewal activities.

TABLE 12. REGISTRATION AND RENEWAL COST OF SERVICE ANALYSIS

Permit Type	Estimated Average Labor Time per Activity (hours)	Hourly Rate	Total Cost per Activity	Current Fee	Existing Cost Recovery %
Home-Sharing Registration	0.93	\$ 183	\$ 171	\$ 89	52%
Home-Sharing Renewal	0.93	\$ 183	\$ 171	\$ 89	52%
Administrative Extended Home-Sharing Registration	5.00	\$ 183	\$ 915	\$ 850	93%
Administrative Extended Home-Sharing Renewal	5.00	\$ 183	\$ 915	\$ 850	93%
Extended Home-Sharing w/ Discretionary Review	73.64	\$ 183	\$ 13,474	\$ 5,660	42%

The “Total Cost per Activity” column establishes the maximum adoptable fee amount for the corresponding service identified in the “Permit Type” list. This Total Cost per Activity reflects DCP’s costs to review of each type of application.

The NBS fee model compares the existing fee for each service or activity to the average total cost of service quantified through this analysis. A cost recovery rate of 0% identifies no current recovery of costs from fee revenues (or insufficient information available for evaluation). A rate of 100% means that the fee currently recovers the full cost of service. A rate between 0% and 100% indicates partial recovery of the full cost of service through fees. A rate greater than 100% means that the fee exceeded the full cost of service. Regulatory fees examined in this Study should not exceed the full cost of service. In other words, the cost recovery rate achieved by a fee should not be greater than 100%.

Recovery of costs for permit registration and renewal services through the individual permit processing fees has the potential to recover up to 52% of total annual HSO Program costs (\$1.47 million), as noted in Section 4.3. However, consistent with DCP and Council’s original intent, the \$89 registration and renewal fees and the \$850 Extended Home-Sharing application fees are currently under-recovering the costs of services provided as shown in Table 12 above. Subsidizing the registration and renewal fee was a policy decision made to encourage participation in the program. The City originally intended for the Extended Home-Sharing applications that required Discretionary Review to fully recover all costs, yet this fee is currently recovering only 42% of the total costs of providing this service.

Based on the assumption that City Council wishes to continue subsidizing all registration and renewal fees, Table 13 below estimates that the HSO Program’s registration and renewal fees will recover approximately \$971,000 in Year 1, or 66% of the annual costs of providing registration and renewal services.

TABLE 13. REGISTRATION AND RENEWAL COST RECOVERY ANALYSIS

Permit Type	Current Fee	Year 1	
		Estimated Volume of Permits Issued	Estimated Annual Revenue
Home-Sharing Registration	\$ 89	7,426	\$ 660,870
Home-Sharing Renewal	\$ 89	-	-
Administrative Extended Home-Sharing Registration	\$ 850	365	309,825
Administrative Extended Home-Sharing Renewal	\$ 850	-	-
Extended Home-Sharing w/ Discretionary Review	\$ 5,660	-	-
Total			\$ 970,695
Estimated Total Cost of Providing Services			\$ 1,465,365
Estimated Subsidy Provided to Fee Payor for Registration/Renewal Activities			\$ (494,670)
Estimated Cost Recovery for Registration/Renewal Activities			66%

As shown, the subsidy equates to approximately \$495,000 annually. Without an increase to the registration and renewal fees to the full cost recovery levels calculated in Table 12, alternate sources of funding will be required to cover the subsidy.

Per-Night Fee

Based on the adopted Home-Sharing Ordinance, general program administration, and ongoing monitoring and compliance activities are required regulatory efforts, in addition to the registration and renewal of permits. A detailed assessment and calculation of all associated costs, including ongoing program administration and registration-related costs, have been described and analyzed in Sections 4.1 and 4.2 of this report.

All active and prospective short-term rental listings in the City of Los Angeles directly and indirectly benefit from the monitoring and compliance activities of the HSO Program. These services bring a higher degree of compliance with local regulations over time and limit the number of non-compliant competitors for those listings that are actively maintaining Program compliance. Moreover, there is a reasonable correlation between program administration and monitoring and Code enforcement costs and the number of nightly bookings.

Therefore, the HSO Program’s general administration, and ongoing monitoring and compliance costs are also properly funded through the imposition of a regulatory fee for service.³ For listings that consistently remain out of compliance with HSO regulations, the City has taken steps to ensure the ability to utilize administrative remedy measures as needed through the City’s ACE Program.

³ California Constitution Article XIII C, Section 1(e)(3) exempts “reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections ... and administrative enforcement ...” from the definition of a tax.

At the onset of this project, City Council and DCP staff were primarily interested in considering a fee per-night booked. As established in Section 3.4, the estimated number of annual nightly bookings for Year 1 is approximately 743,666 nights. By dividing the total estimated eligible costs of the HSO Program by the number of nightly bookings per year, the maximum per-night fee would be **\$2.93**. See Table 14 below:

TABLE 14. MAXIMUM PER-NIGHT REGULATORY FEE

Service Cost Category	Total Cost Summary			
	DCP	HCID	DBS	Total
HSO Program Administration	\$ 768,588	\$ -	\$ -	\$ 768,588
Monitoring and Code Enforcement	\$ 1,077,923	\$ 156,812	\$ 173,874	1,408,609
Total	\$ 1,846,511	\$ 156,812	\$ 173,874	\$ 2,177,197
Year 1 Estimated No. of Nightly Bookings (Table 4)				743,666
Per-Night Fee				\$ 2.93

To help illustrate a typical Per-Night Fee for an applicant, Table 15 below displays the maximum costs that each applicant can expect to pay on an annual basis.

TABLE 15. PER-NIGHT FEE MAXIMUM COST TO APPLICANT

Year 1			
Nights Hosted	Registration Fee	Per-Night Fee	Max Cost to Applicant
0 to 30 nights	\$ 89	\$0 - \$88	\$ 177
31 to 90 nights	89	\$91 - \$264	353
91 to 120 nights	89	\$267 - \$352	441
121 to 180 nights	\$89 + \$850	\$355 - \$527	1,466
181 to 365 nights	\$89 + \$850	\$530 - \$1,069	2,008

Subsequent Years			
Nights Hosted	Renewal Fee	Per-Night Fee	Max Cost to Applicant
0 to 30 nights	\$ 89	\$0 - \$88	\$ 177
31 to 90 nights	89	\$91 - \$264	353
91 to 120 nights	89	\$267 - \$352	441
121 to 180 nights	850	\$355 - \$527	1,377
181 to 365 nights	850	\$530 - \$1,069	1,919

5.3 Total Cost Recovery Outcome

Based on the estimated number of registrations and nightly bookings from Sections 5.2 and 3.4, the maximum potential revenue for Year 1 generated by registration, renewal, and per-night fees would be \$3.15 million, which is equivalent to approximately 88% of the full cost of HSO Program regulatory services established in Section 4.3.

6. COST-BENEFIT FEASIBILITY ANALYSIS AND OPTIONS

This Chapter introduces an alternative approach to HSO Program cost recovery expressed as an Annual Regulatory Fee. The following is a discussion of benefits and considerations regarding the two fee approaches that NBS considered as part of this Fee Study.

6.1 Per-Night Fee – Benefits and Considerations

There are several notable benefits to charging a Per-Night Fee:

- Number of nights booked is relatively easy to track and administer from a collections standpoint since it is based on reporting by the host and data scrape information.
- Collecting the fee associated with number of nights booked allows the host to pay a low registration fee to get started in the Program, and a fee based on the extent of their rental activity on a periodic basis (based on reporting timeline such as quarterly, annually).

Considerations to note about a Per-Night Fee include:

- The prominent underlying assumption for a Per-Night Fee is that there is a linear correlation between the amount of regulatory program services received from the City and the number of nights booked for any given registered listing. Under the Per-Night Fee structure, listings with more nightly bookings pay a higher share overall of the HSO Program’s annual monitoring and Program administration costs. The Per-Night fee structure assumes that more nightly activity will translate to more regulatory services and benefits to the Host. Listings with more nightly bookings will pay a higher share of the initially subsidized registration costs than listings with fewer nightly bookings. As discussed in Section 5.2, the cost associated with processing a registration or renewal permit application is generally the same regardless of the number of nights booked.
- A Per-Night Fee structure may result in higher degrees of revenue volatility if there are significant changes in demand for bookings. The HSO Program may experience difficulty in recovering ongoing-annual costs if the number of nightly bookings varies significantly from year to year.

6.2 Alternate Fee Option - Annual Regulatory Fee

As an alternative to a Per-Night Fee, the City considered implementing an Annual Regulatory Fee. This would be a fixed fee amount charged one time each year to new registrations in the program and renewals of existing registrations. As with the Per-Night Fee, when looking at the benefits and considerations of implementing an Annual Regulatory Fee, the key underlying assumptions must be considered. The basis of the Annual Regulatory Fee assumes that all registered listings receive the same basic services and benefits from the regulatory program on average per year. Rather than charging hosts based on the exact “number of nights” booked per year, the Annual Regulatory Fee considers all registered listings the same.

There are several notable benefits to the Annual Regulatory Fee approach:

- The fee amount a registered listing can expect to pay is predictable and consistent, one annual fee per year.
- All registrants of the HSO Program pay a fixed amount, irrespective of the number of nightly bookings, of the Annual Regulatory costs required to ensure and maintain the short-term rental hosts' compliance with local regulations.
- In years with less rental activity, this fee approach could result in less revenue volatility than a Per-Night fee approach.

Other considerations to note regarding the Annual Regulatory Fee are that compliance with the HSO Program will be higher for listings with less rental activity than the Per-Night Fee approach. Applicants intending to rent their residence out for shorter periods of time may not see the benefit in the cost of paying a fee compared to the potential revenue they could receive. For example, using the Per-Night Max Cost calculations from Table 15, hosts renting their residence for less than 90 days would pay less per year with a Per-Night Fee than with an Annual Regulatory Fee. Assuming a host receives a net profit of \$100 per night, a host would have to rent at least five (5) nights a year to recoup the costs of registering for the HSO Program compared to two (2) nights using the Per-Night Fee calculations. However, hosts desiring to rent for more than 120 days would save 16-40% per year with an Annual Regulatory Fee vs. a Per-Night Fee.

As established in Section 3.3, the estimated number of new registration permits in Year 1 is 7,426. By dividing the total estimated costs associated with general program administration, and ongoing monitoring and compliance costs by the annual number of registration permit transactions, the maximum Annual Regulatory Fee would be approximately \$293. See Table 16 below:

TABLE 16. ANNUAL REGULATORY FEE WITH FULL COST RECOVERY REGISTRATION FEES

Service Cost Category	Total Cost Summary			
	DCP	HCID	DBS	Total
HSO Program Administration	\$ 768,588	\$ -	\$ -	\$ 768,588
Monitoring and Code Enforcement	\$ 1,077,923	\$ 156,812	\$ 173,874	1,408,609
Total	\$ 1,846,511	\$ 156,812	\$ 173,874	\$ 2,177,197
Year 1 Estimated No. of Application/Registration Transactions (Table 3)				7,426
Per-Application Fee				\$ 293

The Annual Regulatory Fee could either apply each time an initial application or annual renewal occurs, or at the end of the annual period of rental activity so that the applicant still benefits from the lower initially subsidized registration fees that are intended to encourage compliance with the Program. Table 17 displays the Annual Regulatory Fee for various types of applicants and displays the maximum costs that an applicant, with and without Extended Home-Sharing, can expect to pay on an annual basis.

TABLE 17. ANNUAL REGULATORY FEE MAXIUM COST TO APPLICANT

All Years - No Extended Home-Sharing	
Registration/Renewal Fee	\$ 89
Annual Regulatory Fee	293
Max Cost to Applicant	\$ 382

Year 1 - With Extended Home-Sharing	
Registration Fee	\$ 89
Annual Regulatory Fee	293
Extended Home-Sharing Fee	850
Max Cost to Applicant	\$ 1,232

Subsequent Years - With Extended Home-Sharing	
Renewal Fee	\$ 850
Annual Regulatory Fee	293
Max Cost to Applicant	\$ 1,143

Based on the estimated number of registrations from Section 3.4, the maximum potential revenue for Year 1 generated by registration, renewal, and annual regulatory fees would be \$3.3 million, which is within 92% of the HSO Program’s total costs of services established in Section 4.3.⁴

6.3 Comparative Fee Survey / Other Options

NBS completed a Comparative Fee Survey (Survey) for the City’s Home-Sharing Program. The survey included the Program’s established registration fees, as well as the potential for a Per-Night Fee. The purpose of the comparative survey was two-fold:

1. Provide a sense of pricing and common practices in the implementation of similar fee programs.
2. Understand the types of funding sources available for similar programs (e.g., fees, taxes, fines, etc.).

NBS worked with the City to choose three comparative agencies that are similar in either size, location, or complexity to the City of Los Angeles, or have adopted similar regulations to the City’s Home-Sharing Ordinance. Initially, Nashville, San Francisco, and Chicago were the primary focus of the survey; however, NBS expanded the list to also include the City of Berkeley, as well as a basic survey of other Southern California agencies in Los Angeles County.

In general, NBS made a reasonable attempt to source each comparison agency’s fee schedule from the internet and compile a comparison of fee categories and amounts that matched Los Angeles’ current fees

⁴ By NBS standard and experience with similar industry standards, a variance within 10% is an acceptable margin given reliance on projections and estimates for the basis of the fee calculation.

for the Home Sharing Program. NBS also reached out to each comparison agency to gather basic information about the structure and implementation of each city’s Home-Sharing Regulatory Program via phone. While every attempt was made to contact each City directly, NBS was unable to reach a representative from the City of Chicago, therefore the results shown for Chicago are sourced solely from online resources.

The following information was surveyed for each of the comparison agencies:

- Amount and type of registration and/or renewal fees charged.
- Whether or not the city charges a Per-Night Fee. If so, then what is the amount of the Per-Night Fee?
- Is the applicant required to pay Business License or TOT tax in addition to registration, renewal, or per-night fees?
 - If a Business License is required, what is the Business License fee and/or tax rate?
 - If Transient Occupancy Tax (TOT) is required, what is the TOT rate?

Table 18 displays the results of the Comparative Fee Survey for the HSO Program. The following are NBS’ overall findings regarding the survey data:

- **Registration Fees:** Los Angeles’ registration fee of \$89 is lower than all other cities surveyed, and Los Angeles also has more types of applications and fees.
- **Renewal Fees:** Most agencies surveyed charge a renewal fee equal to the registration fee. San Francisco and Chicago process renewals bi-annually and Berkeley does not charge a renewal fee.
- **Per-Night Fee:** NBS concludes that this type of fee/funding structure in general is not currently an industry standard. Nashville was the only city that clearly charges a “per-night fee.” Berkeley charges a fee equal to 2% of gross receipts.
- **Business License:** Both Nashville and San Francisco require a Business License and a Business License Tax to be paid in addition to a registration/renewal fee.
- **Transient Occupancy Tax Rate:** NBS found through this survey that the most common method of collecting revenues specific to Home-Sharing Programs is through Transient Occupancy Tax.

The following provides more specific findings of the comparison agencies surveyed:

City of Nashville – Nashville was the only original city surveyed that charges a per-night fee to all applicants, in addition to a Transient Occupancy Tax. Discussion with a city representative indicated that the city does not have a separate trust fund set up for the collection of the per-night fee, but rather all funds are deposited into the General Fund.

City of San Francisco – San Francisco does not charge a per-night fee but does charge for a Business License and Transient Occupancy Tax. The city stated that they do not have a separate fund set up, but their Home-Sharing Program expenses are mainly funded by application fees and enforcement penalties.

City of Chicago – Chicago was unavailable for a phone interview; however, information gathered online showed that the city’s fee structure varied the most from Los Angeles. Chicago does not charge the host a registration fee, unless they own and operate two (2) or more units. Instead, they charge the hosting platform (Airbnb, HomeAway, etc.) a fee for allowing them to operate within the city. They also charge a 6% surcharge on top of the standard Transient Occupancy Tax for those who participate in the Home-Sharing Program.

City of Berkeley – Though not part of the original survey request, research along the way showed that Berkeley charges a 2% “code enforcement fee” based on gross receipts in addition to a Transient Occupancy Tax. The city stated that their registration fee is a one-time charge, and the only recurring fees paid are the 2% code enforcement fee and TOT. This was the only other fee program in California that appeared to charge a fee correlating to rental activity.

Los Angeles County – Upon surveying other Southern California agencies with short-term rental ordinances, it was determined that many of these jurisdictions either did not allow short-term rentals in their city, or their programs varied greatly from the Los Angeles HSO. None of the other cities in Los Angeles County charge a “per-night fee,” but all utilize Transient Occupancy Tax as a method of charging Home-Sharing registrants.

As discussed above, the comparative fee survey performed by NBS found that Nashville, San Francisco and Berkeley all charge an application fee to hosts and Chicago only charges an application fee for hosts operating two or more shared housing units. All cities charge a renewal fee, with the exception of Berkeley. Only one city outside of California surveyed charges a “per-night fee,” and one City inside of California charges a “code enforcement fee” based on gross receipts. Chicago charges an additional 6% TOT tax on top of their standard 17% for those operating shared housing units. Since NBS did not perform the same level of analysis for the comparative agencies, it is possible that agencies outside of California (i.e., Nashville and Chicago) have different laws around establishing fees, which could account for the difference in fee structure. For the remainder of the Southern California/Los Angeles County agencies surveyed, the most common cost recovery method is charging hosts a Transient Occupancy Tax which ranges from 10-14%.

TABLE 18. COMPARATIVE FEE SURVEY RESULTS

City	Registration Fee	Renewal Fee	Per-Night Fee (Y/N)	Per-Night Fee Amount	BL Required (Y/N)	BL Fee Amount	BL Tax	TOT Tax %	BL Tax or TOT Tax Payed
City of Los Angeles	Regular Registration: \$89 Extended Home-Sharing (more than 120 days): \$850 Extended Home-Sharing Applications Requiring Further Discretionary Review: \$5,660	\$ 89	TBD	TBD	N	n/a	n/a	14%	TOT only
Nashville	\$ 313	\$ 313	Y	\$ 2.50	Y	\$0 - \$150 depending on gross receipts	Depends on gross receipts	6% + \$2.50 per night	Both TOT & BL
San Francisco	\$250 for 2 years Effective 10/1/19, fee will increase to \$450	\$250. Good for 2 years	N	\$ -	Y	\$ 99	\$83 - 33,404 depending on gross receipts *Can file for BL exemption if gross receipts >\$40k annually	14%	Both TOT & BL if no exemption for BL is filed
Chicago	Applicant: < 2 units = no reg/no fee 2+ units = \$250 for 2 years Platform: <1,000 units = \$5,000 + \$60/unit >1,000 units = \$10,000 + \$60/unit	\$250. Good for 2 years	N	\$ -	N	n/a	n/a	23.4% Base rate 17.4% + 6% surcharge on shared housing units	TOT only
Berkeley	\$ 220	N	Y	2% of gross receipts code enforcement fee	N	n/a	n/a	12%	TOT only

7. CONCLUSIONS AND POLICY RECOMMENDATIONS

This Chapter discusses policy options and the conclusion of the Fee Study Report.

7.1 Recommendations

Section 5.2 of this report establishes the maximum registration and renewal fees eligible for City Council's consideration and adoption. NBS understands and has accounted for City Council's direction to continue with an up-front subsidy of registration and annual renewal fees, and ultimately supports that the maximum fee can recover the full costs of registration, monitoring, and code enforcement should that be the policy implemented upon considering the Study's outcomes. If the full cost recovery of registration and renewal fees is desired, the results of the NBS report would require reconfiguration.

As to the recommended fee structure for recovery of costs other than those related to registration and renewal permits, NBS considers the Annual Regulatory Fee method as the most consistent and reasonable approach to cost recovery for the HSO Program. The Per-Night Fee method of cost recovery is also reasonable, even though it assumes a higher degree of regulatory efforts on average for listings with more nightly bookings.

7.2 Policy Considerations

Regulatory fees examined in this Study should not exceed the full cost of service. In other words, the cost recovery rate achieved by a fee should not be greater than 100%. In most cases, imposing a fee above this threshold could require the consensus of the voters. Here, the City is only recovering a portion of costs of service associated with the HSO Program.

Cost recovery targets and individual fee recommendations always reflect agency-specific judgments linked to a variety of factors, such as existing City policies, agency-wide or departmental revenue objectives, economic goals, community values, market conditions, level of demand, and others.

A general means of selecting an appropriate cost recovery target is to consider the public and private benefits of the service or activity in question, such as:

- To what degree does the public at large benefit from the service?
- To what degree does the individual or entity requesting, requiring, or causing the service benefit?

The fees established by the HSO represent a private benefit to the applicant; however, in some cases a strict public-versus-private benefit judgment may not be sufficient to finalize a cost recovery target. Any of the following other factors and considerations may influence or supplement the public/private benefit perception of a service or activity:

- If optimizing revenue potential is an overriding goal, is it feasible to recover the full cost of service?
- Will increasing fees result in non-compliance or public safety problems?

- Are there desired behaviors or modifications to behaviors of the service population helped or hindered through the degree of pricing for the activities?
- Does current demand for services support a fee increase without adverse impact to the citizenry served or current revenue levels? (In other words, would fee increases have the unintended consequence of driving away the population served?)
- Are there broader City objectives that inform a less than full cost recovery target from fees, such as economic development goals and local social values?

Because this element of the Study is subjective, NBS provides the cost of service calculation based on 100% full cost recovery, as well as the framework for the City to adjust in accordance with the City's goals as they pertain to code compliance, cost recovery, economic development, and social values.

7.3 Fee Update Requirements

In general, the Best Management Practice for a comprehensive review of municipal fee programs is every five years. Five years is enough time for significant operational and budgetary changes to take place that could impact underlying cost and process assumptions supporting fee calculations. However, NBS recommends more frequent cycles of fee program review and update when there are significant changes in operations or economics, or when a fee program is completely new. Because the City's HSO Program is a new program and the impacts of the HSO are unknown as to the number of registrants and number of annual nightly bookings, as well as the impacts of program implementation on staffing and operational processes, NBS recommends that the City adopt a fee and track data for up to two years to support revision of the fee model and any recommendations for updated fee amounts at that time.

Between the time an HSO fee program is adopted and the next comprehensive evaluation of the fee program, the City should consider adjusting these fees on an annual basis to at least keep pace with the cost of inflation. A common practice in California is to apply an annual Consumer Price Index adjustment.

7.4 Conclusion

As discussed throughout this report, the fee program established by this report intends to improve the City's recovery of costs incurred to provide regulatory services. Predicting the amount to which any adopted fee increase will affect City revenues is difficult to quantify. For the near-term, the City should not count on increased revenues to meet any specific expenditure plan. Experience with the revised fee amounts should be gained first before revenue projections are revised. However, unless there is some significant, long-term change in activity levels at the City, proposed fee amendments should enhance the City's cost recovery performance over time, providing it with the ability to stretch other resources further for the benefit of the public at large.

As a final note in this Study, it is worth acknowledging the path that fees in general have taken in California. The public demands ever more precise and equitable accounting of the basis for governmental fees and a greater say in when and how they are charged. It is inevitable in the not too distant future, that user fees and regulatory fees will demand an even greater level of analysis and supporting data to meet the public's evolving expectations. Technology systems will play an increased and significant role in an agency's ability to accomplish this. Continuous improvement and refinement of time and cost tracking

abilities will greatly enhance the City's ability to set fees for service and identify unfunded activities in years to come.

In preparing this report and the opinions and recommendations included herein, NBS has relied on a number of principal assumptions and considerations with regard to financial matters, conditions and events that may occur in the future. This information and assumptions, including the City's budgets, time estimate data, and workload information from City staff, were provided by sources we believe to be reliable; however, NBS has not independently verified such information and assumptions. While we believe NBS' use of such information and assumptions is reasonable for the purpose of this report, some assumptions will invariably not materialize as stated herein and may vary significantly due to unanticipated events and circumstances. Therefore, the actual results can be expected to vary from those projected to the extent that actual future conditions differ from those assumed by us or provided to us by others.