

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: November 5, 2020

CAO File No. 0220-05802-0000

Council File No. 14-1635-S7

Council District: Citywide

To: The Mayor
The Council

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

Reference: Department of City Planning transmittal dated August 27, 2020; Received by the City Administrative Officer August 27, 2020; Additional information received through October 28, 2020

Subject: **DEPARTMENT OF CITY PLANNING REQUEST TO ESTABLISH A PER-NIGHT FEE TO RECOVERY REGULATORY COSTS ASSOCIATED WITH THE CITY'S HOME-SHARING ORDINANCE**

RECOMMENDATION

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

1. Receive and file the administrative fee study report from NBS included as an attachment to the Department of City Planning transmittal dated August 27, 2020;
2. Adopt the attached Resolution (Attachment 1) to set the amount of a per-night fee, as described in Section 12.22 A.32.(e)(5) of the Los Angeles Municipal Code (LAMC), at \$3.10 per night, effective on or after December 1, 2020;
3. Request the City Attorney draft an ordinance to amend LAMC Section 19.01 T. to set HSO Registration and Renewal Fees at full cost recovery as shown below:

Type of Application	Fee
Home-Sharing Application or Renewal	\$183
Extended Home-Sharing Administrative	\$982
Extended Home-Sharing Discretionary Review Application	\$14,458
Extended Home-Sharing Renewal	\$982

4. Instruct the Department of City Planning to report back with an updated fee study after two full years of implementation of short-term rental activity.

SUMMARY

On December 11, 2018, the Mayor and Council adopted the Home-Sharing Ordinance (HSO) to regulate the use of a primary residence for home-sharing as an accessory use and to establish fees to recover the regulatory costs associated with the enforcement of the HSO (C.F. 14-1365-S2). The HSO established registration and renewals fees for home-sharing and extended home-sharing set at a level less than full cost recovery to encourage compliance with the HSO and further stated that “the City Council shall adopt, by resolution, a per-night fee based on an analysis of the cost of implementing, maintaining, and enforcing this subdivision.” The intent of the per-night fee was to provide for the recovery of regulatory costs associated with the HSO not covered by the registration and renewal fees.

In a transmittal dated August 27, 2020, the Department of City Planning reported on an administrative fee study conducted by an outside consultant, NBS, which provides an analysis of the costs associated with the implementation and enforcement of the HSO and evaluated various options for cost recovery including methods utilized by other jurisdictions. Based on this analysis the DCP recommends that the registration and renewals fees remain at the level set by the HSO and that the per-night fee described in the HSO be set at \$2.93 per night to achieve full cost recovery for HSO program administration, monitoring and code enforcement costs.

This Office concurs with Recommendations 1 and 2 of the DCP report; however, this Office updated the cost figures used by NBS to calculate the per-night fee based on figures utilized in the 2020-21 Budget and recommends a revised per-night fee amount of \$3.10 per night. Additionally, the review and analysis of registration and renewal activities by DCP with the assistance of the City Attorney determined there is an insufficient nexus between the number of nights rented out and the HSO registration and renewal services provided to recover the General Fund subsidized registration and renewal activity costs through a per-night fee. This Office recommends that the existing HSO Registration and Renewal fees be updated and set at full cost recovery.

BACKGROUND

In June 2019, the DCP entered into a contract with NBS to conduct an administrative fee study to determine the appropriate level to set the per-night fee described in LAMC Section 12.22 A.32.(e)(5) based on an analysis of the costs associated with the implementation and enforcement of the HSO, estimated annual short-term rental listings and nights of home-sharing activity, and expected revenues from current registration and renewal fees. In addition to this analysis, NBS evaluated cost recovery methods utilized by other jurisdictions for costs associated with the respective implementation and enforcement of their home-sharing regulations as part of a comparative analysis to provide other options for HSO regulatory cost recovery. Additional details regarding these analyses can be found in the NBS HSO Fee Study attached to the DCP report dated August 27, 2020.

Updated Cost Analysis

This Office reviewed the NBS HSO Fee Study report and concurs with the methodology utilized to reach a proposed per-night fee of \$2.93 per night; however, this Office found that certain position and overhead cost calculations used in this analysis were not up to date with the figures used in the 2020-21 Budget. This Office reconstructed the NBS fee calculation using updated position and overhead costs factors, and the same figures used by NBS related to staff hours to complete HSO work, annual home-sharing registrations and renewals, and projected annual nights of home-sharing activity. Based on the updated position and overhead costs, this Office determined that the per-night fee should be set at an amount of \$3.10 per night. Attachment 2 to this report includes updated versions of several tables included in the NBS HSO Fee Study report to illustrate the impact of the updated cost factors.

Full Cost Recovery for Registration and Renewal Activities

When the Home-Sharing Ordinance was approved by Mayor and Council in December 2018, the fees for registration and renewal activity were set at a level less than full cost recovery to encourage compliance with the requirements of the new ordinance. The intention was to utilize a per-night fee to achieve recover the General Fund subsidized costs for registration and renewal activity and also fund the full cost of administration, monitoring and code enforcement activities. The DCP, with the assistance of the City Attorney, reviewed and analyzed registration and renewal activities and determined that there is an insufficient nexus between the number of nights rented out and the HSO registration and renewal services provided to recover the General Fund subsidized registration and renewal activity costs through a per-night fee. The current estimated General Fund subsidy for registration and renewal costs is \$601,227 based on the CAO updated cost calculations. As the original Mayor and Council intent to recover General Fund subsidized registration and renewal costs through a per-night fee is not feasible, this Office recommends that the registration and renewals fees be updated to achieve full cost recovery for those activities. Based on the same reconstructed fee analysis this Office used to recommend a per-night fee of \$3.10 per night, it is recommended that the registration and renewal fees be set at the amounts shown below:

Updated Home-Sharing Registration and Renewal Fees

Type of Application	Current Fee/DCP Recommended	CAO Recommended Fee	CAO Recommended Increase Amount
Home-Sharing Application or Renewal	\$89	\$183	\$94
Extended Home-Sharing Administrative Clearance	\$850	\$982	\$132
Extended Home-Sharing Discretionary Review Application	\$5,660	\$14,458	\$8,798
Extended Home-Sharing Renewal	\$850	\$982	\$132

Housing and Community Investment Department (HCID) Regulatory Costs

The cost amount shown in both the NBS and CAO updated figures is reflective of the reasonable expectation of HCID for the long-term, ongoing position resource costs to be dedicated to HSO monitoring and code enforcement work. The HCID currently utilizes other staff positions on a part time basis to provide these services as a temporary measure. It is anticipated that HCID will utilize an Assistant Inspector position as shown in both the NBS and CAO figures to conduct this work following a realignment of position resources to be conducted over the next six months to a year.

FISCAL IMPACT STATEMENT

The recommendations of this report would have a positive impact on the General Fund as the revenue from the proposed per-night fee and recommendation to increase registration and renewal fees would eliminate the current estimated \$2.9 million in General Fund subsidized costs associated with the HSO comprised of an estimated \$601,227 subsidy for registration and renewal activities and \$2.3 million for HSO program administration, monitoring and code enforcement not currently recovered by any existing fee.

FINANCIAL POLICIES STATEMENT

The recommendations of this report comply with the City's Financial Policies in that fees are recommended at levels to achieve full cost recovery for regulatory activities related to the enforcement of the HSO.

RHL:NSC:02210065C

Attachment 1: Draft Per-Night Fee Resolution

Attachment 2: Illustrative Tables of CAO Reconstruction of NBS Cost Analysis with 2020-21 Budget Figures

RESOLUTION

WHEREAS, on December 11, 2018, the City Council and Mayor adopted the Home-Sharing Ordinance (Ordinance No. 185,931) to regulate the use of a primary residence for home-sharing as an accessory use and to establish related fees (C.F. 14-1635-S2); and

WHEREAS, the Home-Sharing Ordinance established rates for registration and applications for Home-Sharing and Extended Home-Sharing at a fee level that would be less than the full cost of providing the services in order to encourage compliance; and

WHEREAS, the Home-Sharing Ordinance included a provision that required hosts to pay a per-night fee for each night of home-sharing which would be set upon adoption of a resolution by City Council based on an analysis of the cost of implementing, maintaining, and enforcing the Home-Sharing Ordinance; and

WHEREAS, on April 29, 2019, the Los Angeles Department of City Planning released a Request for Proposals and selected NBS to perform an administrative fee study; and

WHEREAS, NBS released a report which included an analysis of current rental listings and nightly bookings, annual cost of service, and cost recovery to recommend the establishment of the per-night fee at \$2.93 per night;

WHEREAS, the Office of the City Administrative Officer utilized 2020-21 Budget figures to update the NBS annual cost of service analysis to recommend the establishment of the per-night fee at \$3.10 per night; and,

NOW, THEREFORE BE IT RESOLVED, that the City Council set the per-night fee rate as described in Section 12.22.A.32(e)(5) of the Los Angeles Municipal Code (Ordinance No. 185,931) at \$3.10 per night, effective on or after December 1, 2020, and to be adjusted annually beginning on July 1, 2021, in accordance with the latest change in year-over-year Consumer Price Index for Urban Consumers (CPI-U) in the Los Angeles area, as published by the United States Department of Labor, Bureau of Labor Statistics.

PRESENTED BY: _____

SECONDED BY: _____

Illustrative Tables of CAO Reconstruction of NBS Cost Analysis with 2020-21 Budget Figures

The tables below are updated versions of tables included in the NBS Home-Sharing Ordinance Fee Study which include updated salary and related costs based on figures used in the 2020-21 Budget. NBS assumptions for hours required to complete work tasks, annual registrations/renewals, and projected annual nightly home-sharing activity were used in this analysis. The corresponding NBS table is noted in the title for each table.

Annual Cost of HSO Program Services Summary by Service Category (CAO Update - NBS Table 9)

Service Category	Department	Salary Cost	Related Costs	Expense Costs	Total
HSO Program Administration	DCP	\$ 408,678	\$ 471,165	\$ 13,296	\$ 893,139
Registration and Renewal Activities	DCP	457,788	527,783	586,820	1,572,391
Monitoring and Code Enforcement	DCP	17,734	1,043,527	20,446	1,081,707
Monitoring and Code Enforcement	DBS	97,086	80,135	-	177,221
Monitoring and Code Enforcement	HCID	68,025	66,467	15,433	149,925
Case - Processing	DCP	279,547	322,290	8,109	609,946
TOTAL		\$ 1,328,858	\$ 2,511,367	\$ 644,104	\$ 4,484,329

Updated Hourly Cost of Registration/Renewal Activities (CAO Update - NBS Table 11)

Annual Cost of Registration and Renewal Activities	\$ 1,572,391
Annual Hours for Registration and Renewal Activities	8,009
Hourly Cost	\$ 196.33

Updated Registration and Renewal Cost of Service Analysis (CAO Update - NBS Table 12)

Permit Type	Est Avg. Labor Time per Activity	Hourly Rate	Total Cost per Activity	Current Fee	Existing Cost Recovery %
Home-sharing Registration	0.93	\$ 196.33	\$ 183	\$ 89	48.63%
Home-sharing Renewal	0.93	\$ 196.33	\$ 183	\$ 89	48.63%
Administrative Extended Home-sharing Registration	5	\$ 196.33	\$ 982	\$ 850	86.56%
Administrative Extended Home-sharing Renewal	5	\$ 196.33	\$ 982	\$ 850	86.56%
Extended Home-sharing w/ Discretionary Review	73.64	\$ 196.33	\$ 14,458	\$ 5,660	39.15%

Updated Maximum Per-Night Regulatory Fee (CAO Update - NBS Table 14)

Service Cost Category	Total Cost Summary			
	DCP	DBS	HCID	Total
HSO Program Administration	\$ 893,139	\$ -	\$ -	\$ 893,139
Monitoring and Code Enforcement	1,081,707	177,221	149,925	1,408,853
Total	\$ 1,974,846	\$ 177,221	\$ 149,925	\$ 2,301,992
Year 1 Estimated No. of Nightly Bookings				743,666

Per-Night Fee	\$ 3.10
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Updated Per-Night Fee - Maximum Cost to Applicant With Current Registration/Renewal Fees (CAO Update - NBS Table 15)

Year 1			
Nights Hosted	Registration Fee	Per-Night Fee	Max Cost to Applicant
0 to 30 nights	\$ 89	\$0 - \$93	\$ 182
31 to 90 nights	\$ 89	\$96 - \$279	\$ 368
91 to 120 nights	\$ 89	\$282 - \$372	\$ 461
121 to 180 nights	\$ 939	\$375 - \$558	\$ 1,497
181 to 365 nights	\$ 939	\$561 - \$1132	\$ 2,071

Subsequent Years			
Nights Hosted	Registration Fee	Per-Night Fee	Max Cost to Applicant
0 to 30 nights	\$ 89	\$0 - \$93	\$ 182
31 to 90 nights	\$ 89	\$96 - \$279	\$ 368
91 to 120 nights	\$ 89	\$282 - \$372	\$ 461
121 to 180 nights	\$ 850	\$375 - \$558	\$ 1,408
181 to 365 nights	\$ 850	\$561 - \$1132	\$ 1,982

Updated Per-Night Fee and Full Cost Recovery Registration/Renewal Fee -Maximum Cost to Applicant (CAO Update - NBS Table 15)

Year 1			
Nights Hosted	Registration Fee	Per-Night Fee	Max Cost to Applicant
0 to 30 nights	\$ 183	\$0 - \$93	\$ 276
31 to 90 nights	\$ 183	\$96 - \$279	\$ 462
91 to 120 nights	\$ 183	\$282 - \$372	\$ 555
121 to 180 nights	\$ 1,165	\$375 - \$558	\$ 1,723
181 to 365 nights	\$ 1,165	\$561 - \$1132	\$ 2,297

Subsequent Years			
Nights Hosted	Registration Fee	Per-Night Fee	Max Cost to Applicant
0 to 30 nights	\$ 183	\$0 - \$93	\$ 276
31 to 90 nights	\$ 183	\$96 - \$279	\$ 462
91 to 120 nights	\$ 183	\$282 - \$372	\$ 555
121 to 180 nights	\$ 982	\$375 - \$558	\$ 1,540
181 to 365 nights	\$ 982	\$561 - \$1132	\$ 2,114