



*City of Arts & Innovation*

# City Council Memorandum

**TO: HONORABLE MAYOR AND CITY COUNCIL      DATE: October 16, 2018**

**FROM: FINANCE DEPARTMENT      WARD: ALL**

**SUBJECT: VOLUNTARY COLLECTION AGREEMENT OF TRANSIENT OCCUPANCY TAX (TOT) WITH AIRBNB, INC., FOR SHORT-TERM RENTALS IN THE CITY OF RIVERSIDE.**

## **ISSUE:**

Approve the Voluntary Collection Agreement of Transient Occupancy Tax (TOT) with Airbnb, Inc., (Airbnb) for short-term rentals in the City of Riverside.

## **RECOMMENDATIONS:**

That the City Council:

1. Approve the Voluntary Collection Agreement of TOT with Airbnb for short-term rentals in the City of Riverside.
2. Authorize the City Manager, or designee, to execute the Voluntary Collection Agreement with Airbnb, including making minor and non-substantive changes.

## **LEGISLATIVE HISTORY:**

Riverside Municipal Code Chapter 5.32 Requires the payment of TOT for any structure which is occupied or intended or designed for use as occupancy by transients, including but not limited to dwelling, lodging or sleeping purposes, and includes any hotel, inn, tourist home or house, motel, studio hotel, bachelor hotel, lodging house, rooming house, apartment house, dormitory, public or private club, mobile home or house trailer at a fixed location, or other similar structure or portion thereof.

## **BACKGROUND:**

Currently, homeowners and renters located within the City of Riverside are providing short-term rental services by registering and listing their homes on Airbnb's internet-based platform. Short-term rental applies to any residence/dwelling listed by a Host for an occupancy period of thirty consecutive calendar days or less and are subject to the City's TOT which is currently collected by the property owner and distributed to the City.

Growth in the short-term rental market has increased as travelers are opting to stay in private residences while on business or vacation. In addition, homeowners and renters have found it profitable to offer their homes, in part or whole, for rent on a short-term basis. As of September 2018, over 300 short-term rentals from the City of Riverside were publicly advertised on Airbnb.com.

Over the last several years, Airbnb has evolved and grown to have what appears to be the largest peer-to-peer marketplace for short-term rentals among its competitors. Airbnb's internet-based platform currently offers more than 5 million listings worldwide, in over 191 countries and 81,000 cities. To date, Airbnb estimates the average number of people staying on Airbnb.com per night is over 2 million and currently to date, over 300 million guests have checked into an Airbnb rental.

## **DISCUSSION:**

Recently, the Finance Department was contacted by PricewaterhouseCoopers LLP on behalf of Airbnb to facilitate a conversation regarding the possibility of entering into a Voluntary Collection Agreement (VCA), whereby Airbnb would collect the City TOT on behalf of Riverside property owners who rent property via the Airbnb internet-based platform.

While the City can elect to pursue collection of the TOT fees independent of the proposed voluntary collection agreement, it will result in costly efforts in terms of time and additional resources required to identify the host properties and actively collect revenue from each property owner. Entering into this agreement will aid the City of Riverside Business Tax Division in enforcing and collecting the required TOT as there will be a single contact point for collection similar to the process in place for the City's hotels. If approved, the collection of the TOT under this agreement will begin December 01, 2018.

The proposed Voluntary Collection Agreement is a cost-free business-friendly effort to enforce Chapter 5.32 of the Municipal Code on these advertised short-term rentals. Each transient is subject to and shall pay a tax in the amount of thirteen percent (13%) of the rent charged by the operator. Under this Voluntary Collection Agreement, Airbnb agrees to commence collecting and remitting TOT on behalf of the host effective the date of the agreement.

Key points of the VCA include the following:

- Airbnb agrees to assume the role of an operator, as defined in the Municipal Code, to report and collect TOT on behalf of the host and remit the revenue collected to the City, in a timely manner, similar to the current process with the City's Hotels.
- Airbnb will be liable for any miscalculations or oversights regarding TOT and are subject to an audit of TOT returns.
- City of Riverside Business Tax Division agrees to exclude from any audits all documentation that may disclose any personal identification relating to Hosts and Guests on taxable booking transactions.
- This agreement only relates to hosts using the Airbnb internet-based platform.
- Airbnb agrees to notify all hosts that the TOT will be collected and remitted on each taxable booking transaction on short-term rentals within the City of Riverside.
- City of Riverside Business Tax Division agrees Airbnb is only liable to collect and remit any TOT on taxable booking transaction as of the date the agreement is effective, December 1,

2018. Any prior TOT incurred is exempt from remittance by Airbnb.

- This Agreement may be terminated by Airbnb or the City of Riverside with a 30-day written notice to the other Party. The termination will be effective the 1st day of the calendar month following the 30 days' written notification to the other Party.

The Business Tax Division is aware that Airbnb's internet-based platform is not the only platform and therefore is not capturing all short-term rentals listed within the City of Riverside. Unfortunately, the Business Tax Division has insufficient resources to proactively pursue hosts using other platforms for listings. However, if the agreement with Airbnb is successful, the Business Tax Division may pursue similar agreements with other platforms.

### **FISCAL IMPACT:**

Approval of the Voluntary Collection Agreement will result in additional TOT revenue for the City of Riverside. The amount of revenue will depend on the Airbnb Host listings, occupancy rates, and market impacts on pricing. TOT is calculated as a percentage of the rent charged. There are a number of variables that affect rentals such as length of stay and daily rates, therefore it would be difficult for staff to project revenues. However, Finance staff can report quarterly revenues received from this agreement in the quarterly financial reports presented to Council.

Prepared by: Marie Ricci, Assistant Chief Financial Officer  
Certified as to  
availability of funds: Edward Enriquez, Acting Chief Financial Officer/City Treasurer  
Approved by: Lea Deesing, Assistant City Manager  
Approved as to form: Gary G. Geuss, City Attorney

### **Attachments:**

1. Voluntary Collection Agreement for City of Riverside, California Transient Occupancy Tax
2. Presentation