

Government of the District of Columbia
Office of the Chief Financial Officer



Jeffrey S. DeWitt
Chief Financial Officer

MEMORANDUM

TO: The Honorable Phil Mendelson
Chairman, Council of the District of Columbia

FROM: Jeffrey S. DeWitt
Chief Financial Officer 

DATE: October 1, 2018

SUBJECT: Fiscal Impact Statement – Short-term Rental Regulation and Affordable Housing Protection Act of 2018

REFERENCE: Bill 22-92, Committee Print provided to the Office of Revenue Analysis on September 26, 2018

Conclusion

Funds are not sufficient in the fiscal year 2019 through fiscal year 2022 budget and financial plan to implement the bill. The bill is subject to appropriations in an approved budget and financial plan. The bill will cost at least \$20 million in fiscal year 2019 and \$96 million over the four-year financial plan.

Background

The bill establishes restrictions on short-term rentals¹ of property in the District facilitated by a booking service², such as the online services Airbnb or HomeAway. It requires that all short-term rentals be the owner's primary residence, which the bill defines as property eligible for the homestead deduction.³ The bill creates a license category under the basic business license for short-term rentals and specifies that the license shall be valid for two years. All short-term renters must have a short-term license, liability insurance of at least \$500,000⁴, and a 24-hour accessible telephone number, to be answered by a person in case of emergency. No license may be issued if renting the property is prohibited by the zoning regulations.

¹ The bill defines short-term rentals as paid lodging for transient guests in a host's primary residence that are not a hotel, motel, boarding house, rooming house, or bed and breakfast.

² The bill defines booking service as any person or entity that facilitates a short-term rental reservation and collects payment for the rental

³ D.C. Official Code § 47-850.

⁴ The Mayor may adjust this amount by rulemaking.

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A vacation rental is defined as a rental of an entire home, or a portion of a home, while the owner is not present. The bill requires owners to obtain a vacation rental endorsement (but no additional fee may be charged) prior to renting. Vacation rentals may not be rented more than 90 nights per year.

Short-term rentals cannot exceed 8 guests, or two per bedroom, whichever is greater. The bill requires all short-term rentals to post license information within the rental unit, maintain a working smoke detector outside the sleeping area of a rental unit and on all habitable floors of a property, and a carbon monoxide detector on all floors. The unit must provide unobstructed egress from the rental unit in case of a fire, and be cleaned between tenants, including change of linens and towels.

The bill requires owners to use a booking service that requires the use of a rental license number on the listing. Owners must pay all transient lodging taxes and booking services must collect it on their behalf. Both parties must retain records of each rental for two years.

The bill establishes new requirements for short-term rental booking services. Booking services must submit a monthly report to DCRA on all transactions in the District, including names, addresses and license numbers for the property rented. Booking services are prohibited from booking an individual vacation rental property for more than 90 nights per year, and from booking any rental within five days of suspension of a short-term rental license.

The bill requires the Department of Consumer and Regulatory Affairs (DCRA) to monitor short term rentals for compliance, including monitoring of statistics, and investigate booking services for any suspected violations. DCRA must notify booking services immediately of any non-compliant listings discovered. Owners not complying with the requirements are liable for a civil penalty of \$500 for first violation, \$2,000 for second violation, and \$6,000 for a third violation and a revocation of the license. Booking services not complying with the requirements are subject to \$1,000 civil penalty for each violating transaction.

Financial Plan Impact

Funds are not sufficient in the fiscal year 2019 through fiscal year 2022 budget and financial plan to implement the bill. The bill is subject to appropriations in an approved budget and financial plan. The bill will cost at least \$20 million in fiscal year 2019 and \$96 million over the four-year financial plan.

The bill will reduce nearly all transient lodging revenue currently received from short-term rentals through booking services. This is because the bill will limit listings in several ways. First, the bill limits rentals to properties in which the owner is receiving the homestead deduction, eliminating investor rentals. Second, the bill limits vacation rentals, in which the owner is not present on the property, to a maximum of 90 days per year. Currently such rentals are occurring all year. Third, the bill limits rentals to properties currently zoned for transient rentals. Because approximately 80 to 90 percent of short-term rentals occur in residential zones, this restriction is expected to eliminate nearly all current short-term rentals.⁵ Lastly, the bill's license requirement clarifications

⁵ We expect that regulations will need to clarify how certain zoning rules (such as mixed-use zones) should apply to short-term rentals. Additionally, residential zones about small commercial and mixed used zones, and booking agencies do not advertise location data that is specific enough to determine whether certain rentals

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could reduce the number of short-term rentals that occur through booking sites. The bill clarifies that licenses are required for all booking transactions and requires booking entities and DCRA to carefully monitor licensures, potentially dis-incentivizing the casual renter currently renting only a few times per year.

Lastly, the bill imposes significant administrative requirements on DCRA and will likely require the establishment of an office dedicated to licensure and monitoring of short-term rentals. The exact size and scope of this administrative cost is not yet been determined, but it is expected to be large. The City of San Francisco, for example, has stood up a separate office dedicated to similar functions, and could be an appropriate model as the specifications of the District's administration of this effort is planned. This fiscal impact statement will be updated to include such costs, prior to the second reading of the bill.

Fiscal Impact of Bill 22-92 Short-term Rental Regulation and Affordable Housing Protection Act of 2018					
Fiscal Year 2019 – Fiscal Year 2022					
(\$ thousands)					
	FY 2019^(a)	FY 2020	FY 2021	FY 2022	Total
Reduced local fund revenue ^(b)	\$14,225	\$16,294	\$17,109	\$17,964	\$65,595
Reduced revenue dedicated to Convention Center ^(c)	\$6,206	\$7,108	\$7,464	\$7,837	\$28,617
Reduced revenue dedicated to Destination DC ^(d)	\$418	\$479	\$503	\$528	\$1,929
Administration, enforcement, data collection and monitoring	Cost not yet determined	Cost not yet determined	Cost not yet determined	Cost not yet determined	Cost not yet determined
MINIMUM COST	\$20,850	\$23,882	\$25,077	\$26,330	\$96,141

^(a) Assumes only 11 months of reduced revenue for fiscal year 2019.

^(b) Estimate is calculated based on publicly reported figures including total short-term rental guests, average length of stay, and estimated market share of short-term rentals. 10.2 percent of gross receipts is available for the local fund.

^(c) 4.45 percent of gross receipts from charges for transient accommodations are dedicated to the Convention Center. (D.C. Official Code § 47-2002.02).

^(d) 0.3 percent of gross receipts from charges for transient accommodations are dedicated to Destination DC. (D.C. Official Code § 47-2002.03).

fall in mixed use or residential. We therefore conservatively assume 100 percent of short-term rentals will be affected by the zoning requirement in the bill.