



**Agenda Item:** Discuss and Review Voluntary Collection Agreements and Short-term Rental Compliance

**Background:** A HOT task force (comprised of City and Park Board staff) was created to study the recent trends and increased popularity of short-term rental properties, and to research how other local governments are approaching compliance with the HOT.

The discussion will center around voluntary collection agreements (VCAs) and short-term rental compliance.



# HOT – Voluntary Collection Agreements

- VCAs – what are they?
- Pros and Cons of VCAs
- Surveyed Cities
- Revenue Trends
- VCA Potential
- Path Forward

# VCAs – What Are They?

- A VCA is an agreement between an internet lodging company like Airbnb and VRBO and a government (state or local) to collect and remit HOT on behalf of property owners using the online platform to book their property.
- Any transaction between a property owner and a guest for occupancy that is booked and paid for through the online platform for which taxes are due, the platform (Airbnb, VRBO, etc.) agrees to collect and remit HOT to the City/Park Board.
- The purpose is to facilitate the reporting, collection, and remittance of the HOT through aggregate reporting.

# Pros and Cons of VCAs

## Pros:

- Increase HOT collections
- Would capture HOT from STRs that are currently unregistered and not paying HOT
- More reliable and convenient than individual reporting

## Cons:

- Platforms report in the aggregate – no individual property information
- VCAs are all but impossible to audit
- Non-payment of HOT has been used as a method to shut down undesirable operations - we will probably lose that tool.

# Eight Texas Cities Surveyed

- Five have no VCAs: New Braunfels, Lubbock, Dallas, South Padre Island, Irving
  - All cite concerns over same VCA provisions that concern us
  - Each is satisfied with own registration and collection efforts using custom software and/or consultant to identify unregistered properties
- Three with VCAs: Corpus Christi, Plano, Houston
  - Less concern about VCA provisions partly because STR revenue is considered small part of overall HOT revenue
  - Little or no audit focus or strategy at this point

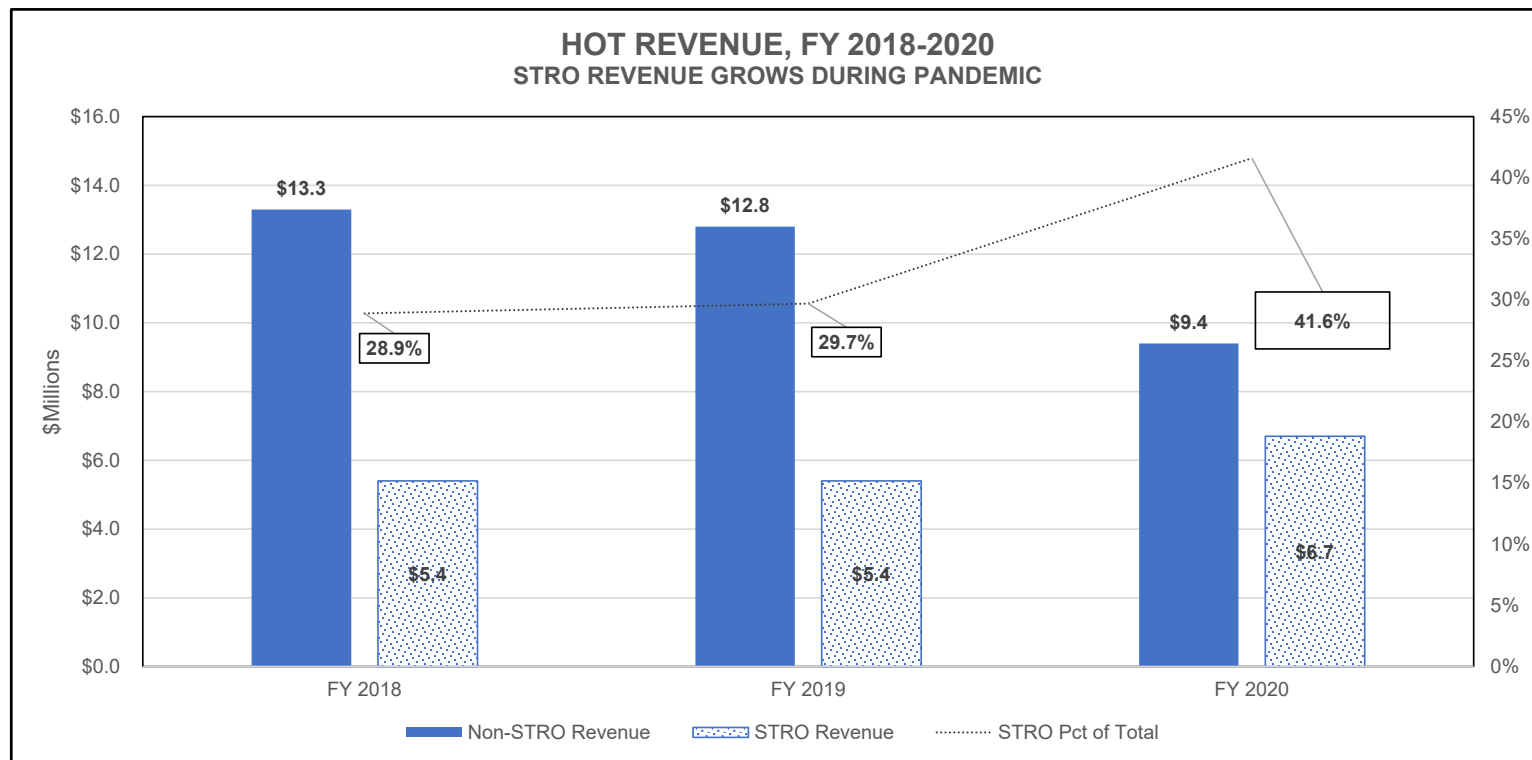
# Two Out-of-State Cities Surveyed

- One with VCA – Breckinridge, CO
  - 90% of their HOT from STRs. VCAs began in 2020
  - 3,800 STR properties
- VCA convenient for taxpayers – with State and County entering VCAs, felt they had to follow suit
  - Had one of their best summers on record, revenue wise. Happy with VCA
  - Cited concerns over some VCA provisions that concern us, but felt VCA more reliable and convenient than individual reporting
  - Appears VCA helped with underreporting
- Both focused on compliance – Destin, FL & Breckinridge, CO
  - Increased license/registration fees and made them annual
  - Used revenue to pay for compliance officers, auditors and third-party assistance

# Recent Revenue Trends

- Short-term rentals have increased their market share significantly in the last three years.
- Since FY2018, STRs have grown as a percentage of total HOT collections by 13%, going from 29% to 42% in FY2020.
- Since March 2020, they have averaged 44%, and from June to September 2020, averaged over 50%. In FY2021, the trend continues with STRs averaging 40% since October 2020.
- Part of the increase is attributable to the pandemic and hotels being shut down or limited for a period; i.e., it amplified the increase of STRs as a percentage of total HOT. But part of the increase is also attributable to a rise in popularity.

# Local HOT Down in 2020, but HOT Paid by STRs Grew





# State HOT vs Local HOT – VCA Potential


- Until FY 2018 – City HOT penny exceeded that coming from the state
- Totals should match – STR enforcement is the difference
- FY20: State collected \$558,000 per penny through Airbnb and HomeAway
- FY20: City collected est. \$292,000 from hosts using Airbnb and HomeAway
- FY20: Signing a VCA would have added \$266,000 per penny to the City's total, but the City would lose details and cut collection costs on balance of \$292,000 collected from registered properties (\$2.4M annually for City 9%)

State Fiscal Year (September- August)	City Penny	State Penny	State Penny Over/(Under) City
SFY08 Actual	\$1,185,248	\$1,073,922	(\$111,326)
SFY09 Actual	\$881,012	\$843,148	(\$37,864)
SFY10 Actual	\$954,785	\$877,087	(\$77,698)
SFY11 Actual	\$1,110,979	\$1,139,019	\$28,040
SFY12 Actual	\$1,295,683	\$1,236,101	(\$59,582)
SFY13 Actual	\$1,411,513	\$1,365,587	(\$45,926)
SFY14 Actual	\$1,476,939	\$1,459,290	(\$17,649)
SFY15 Actual	\$1,674,120	\$1,610,161	(\$63,959)
SFY16 Actual	\$1,675,659	\$1,650,055	(\$25,604)
SFY17 Actual	\$1,839,089	\$1,785,118	(\$53,971)
SFY18 Actual	\$2,069,408	\$2,094,305	\$24,897
<b>SFY19 Actual</b>	<b>\$2,008,858</b>	<b>\$2,114,283</b>	<b>\$105,425</b>
<b>SFY20 Actual</b>	<b>\$1,721,524</b>	<b>\$1,988,420</b>	<b>\$266,896</b>

# Path Forward – Steps Underway

- Communications to educate and motivate unregistered property owners to register
  1. Water bill message board in December (< five responses)
  2. Full page water bill insert this month to provide more information for unregistered owners
  3. Updating and adding to the information on Park Board website
  4. Title companies to include HOT fact sheet in their closing documents
- Identify and audit unregistered STRs
  1. Firm hired by Park Board (Azavar) identifying potential non-compliant STRs – so far 105 found, \$300K total HOT per year
  2. City Auditor in FY20 completed 68 tax audits on noncompliant properties, identifying 47 unregistered STRs - \$162K total HOT

# Moving Forward – Register!

- Consider mass mailing to residential water customers who may be unregistered STR owners: Would require additional resources.
  - Strike up dialogue with STR platforms about City registration requirement.
  - Consider increasing registration fee and/or making it annual: Use revenue for compliance activities.
  - Continue to monitor revenue results closely.
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# Questions and Discussion