



CALinnovates

To: Governor Jerry Brown
From: CALinnovates
Date: September 22, 2015
Re: Save Taxpayer Dollars and Support Local California Businesses

Every year, California spends millions of dollars reimbursing the in-state travel expenses of state employees. A significant amount of these dollars quickly leave the state economy when they're spent on lodging at major hotels. It's an unfortunate irony that while conducting state business, California spends money that won't ultimately help bolster the state's economy.

Last week, in an effort to save taxpayer dollars and support local businesses, the California State Legislature overwhelmingly passed legislation that would allow state employees to continue using services like Airbnb and Uber while conducting state business. This law would simply make it clear that state employees are allowed to use these services to save the state money, make travel more convenient and expedient, and keep more California tax dollars in the state economy.

According to a legislative analysis of the bill, home-sharing services **can save consumers – and thus Californian taxpayers – as much as 50 percent** compared to conventional lodging options. That is a significant savings when you consider that over the last three years, state employees were reimbursed nearly \$110 million in travel-related costs.

For example, in San Francisco, approximately three-quarters of all hotel rooms are owned by corporations and individuals who live and work outside of the city. And for every dollar spent at a typical hotel, an **estimated 60 cents leaves California**, and lines the pockets of out-of-state hotel owners and travel agencies.

By comparison, for every dollar spent at an Airbnb listing in California, **87 cents remain with the host**, and thus stays locally. In addition, these listings are often more convenient and cost-effective. That's part of the reason why so many state employees are opting to use services like Airbnb when they travel for work.

It's a sign of pride in California's innovation economy that these workers want to support locally-based companies that fuel so much of California's economic growth and job creation. They should have the freedom to make that choice.

BACKGROUND INFORMATION

For every dollar spent at a typical hotel, an estimated 60 cents leaves California.

40 cents of every dollar spent at a typical California hotel is spent on labor and additional operating expenses. The remaining 60 cents leaves the city:

- Roughly 30 cents is sent back as profit to the hotel owners' headquarters ¹
- Roughly 20 cents may be used to pay for online travel agencies (OTAs) ²
- Roughly 10 cents may be paid to a franchisor ³

While these percentages vary, the bottom line is clear: typical hotels collect their money in San Francisco, while the majority of their revenue is sent to corporate offices around the world.

For every dollar spent at an Airbnb listing in California, 87 cents goes to a local Airbnb host.

When California guests stay at an Airbnb property, roughly 87 cents of every dollar spent on accommodation stays in the city:

- Roughly 13 cents goes to Airbnb (a company that is headquartered in San Francisco and employs 800 people in that city)
- The remaining 87 cents goes to the host.
- This analysis does not include the guest-paid cleaning fee.

¹ According to various reports, profit margins for US hotels range from 25 - 40%. Carter Wilson, "Real US profit, revenue records in sight" Hotel News Now. April 28, 2015 [<http://www.hotelnewsnow.com/Article/15750/Real-US-profit-revenue-records-in-sight>], Shaun Turner, "US hotel profit growth in 'sweet spot'" Hotel News Now. May 28, 2014 [<http://www.hotelnewsnow.com/article/13780/US-hotel-profit-growth-in-sweet-spot>]

² Both following reports use an average OTA fee of 20% of revenue.

Mark Forrester, "How the win back precious revenue from online travel agencies" Tnooz. [<http://www.tnooz.com/article/how-to-win-back-precious-revenue-from-online-travel-agencies/>], Kristi White, "The Real Cost of Online Travel Agencies" Hotel Business Review [http://hotelexecutive.com/business_review/2401/the-real-cost-of-online-travel-agencies]

³ According to the 2014 U.S. Hotel Franchise Fee Guide, the median franchise cost in 2014 was 11.8%. [<http://www.hvs.com/Jump/Article/Download.aspx?id=7097>]