Recently, some state and local governments, often at the urging of the hotel industry, have passed laws aimed directly at short-term rental sites like Airbnb. Most notably, New York passed a law last year to fine apartment owners between $1,000 and $7,500 for advertising their homes on sites like Airbnb for durations of less than 30 days (the law allows long-term rentals of entire homes and rentals of any duration of spare bedrooms), even though these rentals generate hundreds of millions of dollars in economic impact annually. The impact of these laws is substantial: At the time Gov. Andrew Cuomo signed the bill into law, more than half of the listings in New York City violated the new rules.

But while laws affecting the supply side of the short-term rental market have received quite a bit of attention, the policies impacting demand for these rentals often goes unnoticed. However, many state and local governments have rules limiting public employees from using these options — even though doing so means they end up paying more for lodging or staying in a less convenient location. Sometimes these limitations are explicit prohibitions on using these types of services, while at other times government agencies make the process to do so too cumbersome or the rules so vague that their employees simply give up.
In Georgia, for example, the state government bans services like Airbnb indirectly by not allowing its workers to stay in private residences. The travel policy for government employees states, “All lodging claims must be documented with receipts and must be at a business that offers lodging to the general public, such as a hotel or motel, and not a private residence.”

In North Carolina, the state discourages, but does not prohibit, government workers from obtaining short-term rentals. The policy reads, “Note that under this section of the State Travel Policy, obtaining lodging through Airbnb, VRBO.com or other home-sharing services requires prior approval by the State Office of Budget and Management. Therefore, these home-sharing services are discouraged.” So basically, the state creates just enough red tape to dissuade all but the most determined users.

Illinois has one of the most explicit state bans. Its policy states: “The State of Illinois requires employees who are traveling on official State of Illinois business travel to contact hotels listed in the Preferred Hotel listing first when seeking overnight accommodations. While the online marketing site Airbnb may at times offer lodging within or lower than the maximum lodging rate in certain areas, the State of Illinois will not reimburse employees who choose to obtain lodging through Airbnb while traveling on State of Illinois business.” There is a certain tragic irony that the policy itself acknowledges that this restriction is costing the state money.

Finally, California offers both an example of how states get these policies wrong, as well as how to fix them. In 2014, the University of California’s Office of Risk Services issued a memo stating that it was banning all employees from using Airbnb for official travel. But the state eventually recognized the folly of this policy. Last year the state reversed itself when Gov. Jerry Brown signed legislation prohibiting state agencies from banning its nearly quarter of a million employees from using short-term rentals.

Unfortunately, government agencies often move at a glacial pace when it comes to adopting new technologies. Until recently, the federal government had rules on the books to allow employees to submit expenses for feeding and stabling horses while traveling on official business, but nothing permitting them to use ride-hailing services such as Uber or Lyft. While the Obama administration finally issued guidance permitting federal employees to use these services last summer, this slow rate of change shows the type of hurdles innovative services often face when breaking into a new market.

State and local governments often throw up similar roadblocks. But they should consider the impact these types of restrictions have on their internal culture. Past research has shown that organizational culture can support or hinder innovation, and government agencies that limit their workers from using the latest digital tools and technologies will surely fall behind the curve. States, especially those that want to be digital trailblazers, should eliminate these types of policies and back up their ostensibly pro-innovation rhetoric with meaningful action to ensure their staff are not restricted from participating in the sharing economy.