

TOT considerations

I think it is worth making some key points about the TOT in the discussion of STVRs. Some things that I think are important to consider when we are talking about TOT in this process.

- 1) Because the TOT goes into the city's general fund it cannot be allocated for specific uses. The idea to allocate a portion of the TOT for affordable housing sounds great, but because we cannot do that without changing the entire way the city allocates TOT, it is not a reasonable starting place for this discussion. I do not believe that it makes sense to develop a framework that involves getting the city to change its financial allocation practices. Therefore I would suggest we create recommendations that leave allocating the TOT out of the discussion entirely.

I think that the Santa Cruz CVC and their history with the city and trying to get TOT money is an excellent illustration of why this won't work. For years the CVC was funded by getting money from the cities in the county. The CVC does really important work in strategically marketing Santa Cruz as a tourist destination. CVC's in all locations do the work that individual operators of attractions and hotels can't do. Seeing as how TOT revenue is derived from hotel stays you would think that it would make sense to reinvest in the CVC and destination outreach efforts (more TOT if we have more visitors!) However, because the TOT goes into the general fund, the CVC had to ask for money from the city every year, and because there are a lot of things that the city needs that money for, it was always a fight. The CVC is now self-funded by commercial lodging establishments. Which does free up TOT money for other uses, but also means hotel guests are already being levied with an extra tax. Which brings me to point 2...

- 2) I don't think that this is an appropriate time to introduce raising the TOT tax (as has been suggested by some on this committee). We just raised it a few years ago, in addition to levying the TMD tax. The city of Santa Cruz already has a higher TOT than the cities of Capitola and Watsonville. Santa Cruz is also not a major gateway (like San Francisco is) or what is considered a major destination. 75% of our business is from California. We do not have a convention center like Monterey to attract large groups, nor do we have the name recognition. Raising TOT could present a competitive disadvantage. Also, over the last 7 years, per visitor spending in Santa Cruz is flat. Any money we raise from raising the TOT is likely just going to mean less spending in our restaurants, at our attractions and retail shops etc. It's not necessarily a win for the city over all. I would like to add, for hoteliers, who are already concerned about competition from STVRs, suggesting raising the TOT feels like pouring salt on an open wound. This is a total digression from STVRs, but it was raised as an issue and I wanted to respond.
- 3) There are 467 new hotel rooms planned to come online in the next few years in Santa Cruz. At the current citywide ADR of around \$150 a night for hotels and the current year round occupancy of 68%, these hotel rooms alone could provide an additional \$1.9 million in TOT revenue (at the current 11% rate). This is great! And it is additionally great because big hotels have the capacity to add revenue and room nights during the off peak season by attracting large groups. This is where the greatest potential for TOT revenue growth really lies for Santa Cruz right now. We are VERY full in the summer and only half full during the winter months.

I know that a lot of this may not feel specifically relevant to the current discussion regarding STVRs, but I think that we have been discussing TOT in a way that is not particularly helpful for what we are being tasked with doing. With this information about the TOT in mind, I would suggest that we table conversations about how to use the TOT or suggestions of raising the TOT because they aren't moving us toward useful recommendations.

Long Term Short Term Rental Growth in Santa Cruz

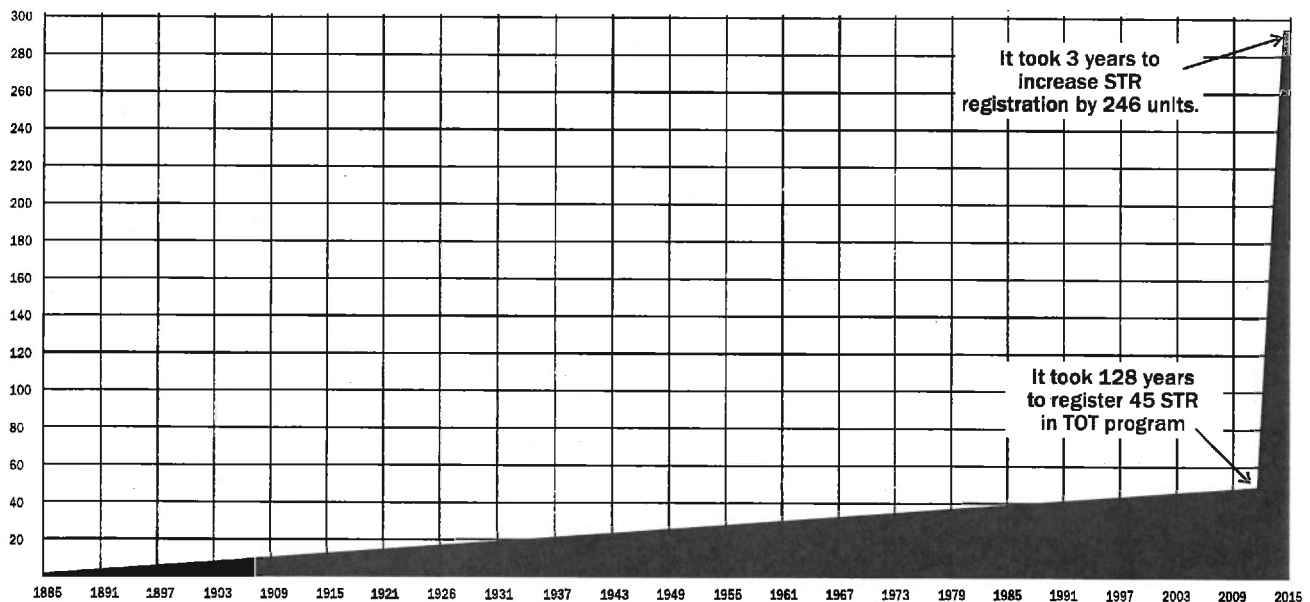
One element of the local short term rental issue is its rate of growth. The ease with which an owner or a tenant can create an online advertising campaign for a neighborhood hotel has caused an explosion of TOT registrations.

City staff report that in the years 2014, 2015 & 2016 there were 246 new short term rentals registered with the City Finance Department. Staff also reports that the total number of short term rental registered today is 291 units.

Santa Cruz has been a tourist town since the 1880s. The data from staff indicates that it took 128 years to reach a registration level of 45 units, an average rate of about 1 unit every 3 years. Since 2014 we have been registering an average of 82 units per year. This represents a registration rate 234 times the historical average.

If we continue to register units at this rate the city's rental housing vacancy rate will shrink below its current rate of 2%. The result of low housing availability will be an increase in rental housing prices.

The chart below shows a graphic representation of TOT registered short term rentals over the last 131 years.



Airbnb is engaged with cities around the world in regulatory conflict over its operations. In several cities STR have been banned or restricted. Airbnb is a pre IPO company focused on growth. Gaining new hosts from the ranks of property owners limits the company's growth potential. Opening up hosting to tenants creates a market for the company that is potentially larger than that of property owners. To this end Airbnb has announced a new program called "The Friendly Building Program." This program creates agreements between landlords and tenants allowing their tenants to become Airbnb hosts. In exchange Airbnb remits a negotiated percentage of the proceeds to the landlord.

From the Airbnb Website:

How do I benefit as a host? You and your landlord agree in writing to a lease addendum that you have their express consent to host on Airbnb, and will not be evicted for doing so as long as you agree to the following:

- Sign an addendum to your existing lease that allows you to host on Airbnb
- Acknowledge that a percentage of your future earnings will go to your landlord (your landlord determines this amount and discloses it to you in your lease addendum)
- Acknowledge that your landlord will receive basic information about your future hosting activities in your building, such as when you host and how much you earn
- Read and accept your landlord's building rules and the terms of this program

What if I don't agree to participate in the program? Your landlord has taken the position that you must agree to these terms or you'll be hosting in violation of your lease and could face repercussions. If you don't agree to participate but continue hosting, your landlord will still be able to see anonymized, aggregated host earnings for their Participating Building(s) (see below for a screenshot). They will receive no personal information about you, but they may decide to send us a subpoena requiring that personal information.

Will my landlord be able to see my previous hosting activity? No. Your landlord will only be able to see hosting activity that occurs after you agree to participate in the program. No previous reservations will be shared under this program.

What information will my landlord receive about my future hosting activity? If you agree to participate in the program, your landlord will be able to see your listing ID, unit number, full name, reservation number, guest checkin and checkout dates, number of guests, number of nights booked, host earnings, and landlord commission.

**Notes from phone conversation between Brion Sprinsock and Kim Chafin,
Senior Planner, City of Hermosa Beach. January 5, 2017**

-Hermosa Beach used the same attorney that drafted Malibu and Redondo Beach ordinances. Following those experiences where enforcement was a challenge he came up with the plan to ban the advertising of short term rentals. Trying to enforce a STR ordinance based on the number of nights or occupancy of the owner was deemed by attorneys to be impossible. The Hermosa ordinance bans advertising STR.

-Hermosa Beach was the first municipality to sign a contract with Host Compliance. Kim provided me with the full contract from the company (10 pages). The total annual cost to the city from Host Compliance is \$25,084. Kim says this is much less expensive than having city staff identify properties and send desist letters.

-How Host Compliance works: When customers view Airbnb looking for a STR they see a big circle on a map instead of the actual location of the subject property. Airbnb's software creates this circle by looking at the longitude and latitude of the subject property in Airbnbs meta data. The Host Compliance software grabs the meta data and matches it with another database that identifies a street address. Finally they match the address with property ownership records from the County database. They send cease and desist letters to the offending property owners and collect the fines for the city. So far the company has a 90% accuracy record when it comes to identifying and enforcing the ban on single family homes. The accuracy drops when the STR is in an apartment or condo complex. Identifying the exact unit in a large complex from the longitude and latitude data is difficult.

-Hermosa Beach's contract with Host compliance is for one year. They may renew at the end of their term, however, the city is being solicited by competitors to Host Compliance. Sublet Alert and two other companies have produced proposals for the city and when it comes time to renew the city may go with a new company. Kim expects the prices to come down as this business model gets more competitive.

-According to Kim the Coastal Commission resistance to STR bans are mostly from staff who have a reputation for pushing the limits of the Coastal Commission's authority. The commissioners themselves are less strident on this point and are more interested in seeing diverse lodging options in the coastal zone. Kim says the fact that Santa Cruz has a hostel in the coastal zone with rates of \$25.00 per night and two B&Bs in the coastal zone with nightly rates less than \$100.00 is the kind of lodging the commission will deem as affordable in the coastal zone. The cities the commission comes down on are cities with only expensive and elite lodging in the coastal zone. Hermosa Beach has a hostel in the coastal zone with rates of \$45.00 per night. That was enough for the commission to leave them alone.