

MAY 23, 2017



INFORMATION REPORT

DATE: May 3, 2017

TO: Planning Commission and City Council
DEPARTMENT: Planning and Community Development
SUBJECT: Short-Term Vacation Rental Subcommittee Recommendations

APPROVED:

DATE: 5-4-17

BACKGROUND/SUMMARY:

On October 25, 2016, the City Council adopted a moratorium prohibiting new residential Short-Term Rentals (STRs) in Santa Cruz with limited exceptions. ("Short term/vacation rental" is currently defined as a residential unit in which overnight accommodations are offered for hire, or in which living accommodations for periods of less than thirty days are customarily offered for hire, or otherwise used in a manner or purpose that would require the owner to comply with the requirements of Chapter 3.28, Transient Occupancy Tax.) This action was in response to the increasing numbers of short-term rentals in Santa Cruz and concerns regarding impacts on the long-term rental housing stock and neighborhood character. The moratorium has allowed time to research and develop strategies to address issues and impacts associated with STRs in Santa Cruz. As part of the City Council action adopting a moratorium, a subcommittee of residents, selected by three members of the City Council, was established to explore options and craft recommendations for a potential regulatory framework for residential short-term rentals.

Over 50 applications were received for the volunteer Short-Term Vacation Rental Subcommittee (Subcommittee), of which 11 persons were selected. The 11-person Subcommittee was comprised of people with a variety of knowledge, expertise and involvement in neighborhood issues, real estate, and the hospitality industry. The Subcommittee reviewed numerous reports, ordinances, fact sheets and maps; and met for a total of 16 hours over seven meetings, from December 14, 2016 to the final meeting on April 4, 2017. During the course of their meetings, Subcommittee members expressed varying viewpoints with some disagreeing on various aspects and impacts associated with STRs in Santa Cruz. The Subcommittee members agreed to hold two additional meetings, from the originally scheduled five meetings, in order to more fully discuss some of the STR topics and formulate regulatory framework recommendations for Planning Commission and City Council. Most Subcommittee members expressed some frustration about the limited time they had, which prevented examining some topics in greater depth. In addition, they also expressed concern that they were not

able to research the numerous jurisdictions with STR ordinances to determine which regulatory components were most effective. This report summarizes the Subcommittee recommendations made in general agreement or by vote for a potential framework to regulate residential STRs in the City of Santa Cruz.

DISCUSSION:

The Subcommittee members were provided an information binder, prepared by City Planning staff, containing STR ordinances from other jurisdictions, the City's STR survey results completed by more than 1,700 respondents, maps of registered STR units in Santa Cruz, and various facts and figures on Santa Cruz's housing stock. A table of contents listing the information provided to the Subcommittee in the binder and at each of the subcommittee meetings is included as Attachment 1. A city-wide STR location map is also included in this report as Attachment 2. Sample ordinances provided in the binder included those that both prohibit and allow STRs. During discussions, Subcommittee members expressed varying opinions on the actual, versus perceived, impacts that STRs have on the local long-term rental housing stock and neighborhood character.

Upon review of the available information, the Subcommittee found that more data is needed to fully evaluate the unregistered STR units, including their total number, rental frequency, location, whether they are hosted or non-hosted, one room or whole house rentals. The Subcommittee members indicated that this information would have been helpful in developing more refined recommendations. Staff noted that such data does not currently exist, although it is anticipated that it would be collected as part of the initial STR registration process.

The Subcommittee members recognized that Santa Cruz has always been a desirable vacation and tourist destination, with second and vacation homes being a familiar part of the community landscape. The Subcommittee members were given information showing that the short-term rental market has increased substantially with the advent and ease of the various internet rental platforms, such as Airbnb, HomeAway, VRBO, FlipKey and others. The Subcommittee members unanimously agreed that short-term rentals should be defined and regulated.

It was also stated that given the goal of completing an STR review and recommendations for a regulatory framework within the compressed moratorium schedule, that the Subcommittee's recommendations should only serve as a starting point to define terms, set some sort of limitations, and to establish a process that would allow information to be gathered, which would help inform subsequent program adjustments.

Subcommittee STR Program Recommendations – Define, Limit and Gather Data

Recognizing the complexities surrounding STRs, varying opinions, and limited time frame to evaluate variables in zoning, location, proximity, ownership, hosted and non-hosted units, as discussed above, the Subcommittee focused on three prime STR program objectives that would: define terms, limit the number of new STR units, and allow for future data gathering to inform subsequent program revisions. This summary report focuses on those definitions that are either not currently defined in the municipal

code or those that pertain specifically to, and helped inform, the recommendations on short-term rentals. Each of these topics, including rationale, where applicable, and recommendations are discussed below.

1. Definitions (These definitions represent some of the terms discussed by the Subcommittee with general agreement. The list is not a comprehensive list of terms that would need to be included with any regulatory ordinance.)

HOSTED SHORT-TERM RENTAL (STR): A STR property where the owner complies with the Principal Residence definition. The owner resides on the property, and may or may not be present during the STR visit, with only one STR allowed per Assessor's Parcel Number (APN).

NON-HOSTED SHORT TERM RENTAL (STR): A non-hosted STR property where the owner does not reside in the STR unit and does not qualify as the owner's principal residence.

PRINCIPAL RESIDENCE: (Existing definition in Municipal Code, 24.22.618.1) The dwelling a person physically occupies and lives in on a day-to-day basis. A person may have only one principal residence at a time. If a person alternates between two or more properties, the principal residence will be the one lived in the majority of days during the year. (Note: "Majority of days" is generally interpreted to mean six months and one day.) Whether a property qualifies as a principal residence depends on the facts and circumstances in each case, including the good faith of the homeowner. In addition to a homeowner's use of the property, the following factors are relevant when determining principal residence: the address listed on the homeowner's federal and state tax returns, bank account, car registration, driver's license, voter registration and employment records; the mailing address for bills and correspondence; and whether the homeowner has been granted a homeowner's exemption pursuant to California Revenue and Taxation Code Section 218 which is on file in the County Assessor's Office.

SHORT-TERM RENTALS, EXISTING: Units with owners possessing a valid Transient Occupancy Tax (TOT) registration with the Finance Department, prior to the adoption of the STR moratorium date of October 25, 2016, or properties where owners qualified to register as single-family residences or duplexes after the date of the moratorium under the exceptions specifically not subject to the moratorium. As of this report date, there are a total of 303 existing registered STR units; 152 "Hosted" STR units and 151 "Non-hosted" STR units. (The actual number of Hosted and Non-hosted STRs may vary from these initial estimates as site-specific information is collected for these existing registrations and may shift properties from one type of STR to the other depending upon specific owner residency information.)

2. Limitations and Regulatory Framework

Existing STRs: The existing short-term rental units, currently identified as 152 Hosted and 151 Non-hosted units, could continue to operate, but would be non-conforming to the new criteria/standards. The ability to continue the STR use would cease upon:

- a. Sale of property or change of ownership, which triggers a re-assessment for property tax purposes, or
- b. Cessation of use of the property as a STR (time to be determined – 1-3 years), or
- c. Revocation of the TOT registration or license to operate as a result of a certain number of verifiable complaints, or non-payment of TOT.

New Hosted STRs: New hosted STR units would be eligible for a TOT registration/license provided the owner demonstrates principal residency on the property and complies with new operational criteria/standards. Consistent with the moratorium language, the Subcommittee did not achieve consensus on capping the number of new hosted STRs, therefore no cap is proposed. Rationale: A hosted STR unit is someone's primary residence and has property owner oversight.

New Non-Hosted STRs: Upon expiration of the moratorium, allow an additional 75 Non-hosted STR registration/licenses, selected from an applicant pool of existing STR units not currently registered with the Finance Department. Criteria/standards to be developed include proof that they had been short term renting prior to the moratorium. The mechanism and details of registering and and/or licensing the additional 75 non-hosted STRs would need to be developed prior to authorizing the new STRs, i.e. lottery, etc. Rationale: A limited amnesty program would encourage previously non-TOT registered STR units to enroll in the STR program in order to continue operation and allow the City an opportunity to gather data to help inform subsequent program revisions. Allowing an additional 75 non-hosted STRs was suggested as they, when added to the existing 151 non-hosted STRs represents approximately 1.78% (less than 2%) of the available long-term rental housing stock (approximately 12,691 units) based on currently available City rental housing information.

Use-It-or-Lose-It: STR units must demonstrate rental activity through reporting and payment of TOT. 'Banking', having but not using, a TOT registration and STR license, would be restricted.

Licensing/Registration Fee: The cost of the license should be enough to incentivize use as the STR, but not too expensive to be punitive. The license would be a separate requirement from the TOT registration and be issued to an entity or individual and not the property.

Transferability: The TOT registration and license for a STR unit is not transferrable and would cease upon sale of the property or change of ownership, which triggers a re-assessment for property tax purposes. (This is consistent with the TOT registration process, where the TOT registration is linked to a specific person/entity and not to the property.)

Revocation: Authorization for a STR may be revoked with verified evidence of code violations or failure to comply with established criteria/standards.

Occupancy Limits: Maximum occupancy of STR units is two persons per bedroom, plus two, regardless of the age of the occupant.

Number of New STR units owned per person/entity: The number of applications that a person or entity could submit for consideration in the pool of 75 new non-hosted STR licenses would be limited

to a maximum of two. (Note: The concept of limiting the overall number of non-hosted STR units a person or entity could own did not achieve consensus.)

Rental Inspection: Short-term rental units should be subject to the City's Rental Inspection Program to ensure minimum residential life and fire safety standards are met.

Rules of Conduct: Standard rules of conduct would apply to all STR units, with a requirement that such rules would be provided to guests, regarding maximum occupancy, local contact information, trash collection, limitations on noise and large gatherings, check-in/check-out times, parking, etc. Noncompliance with these rules of conduct would form the basis for revocation. Additionally, STR applicants would need to maintain TOT registration and licenses in good standing.

3. Data Gathering

Permit/Application Process: An application, to be developed, would be required for any new STR request. Information collected would help inform any subsequent program revisions including but not limited to regulations regarding location, concentration, ownership, number of rooms or whole house rented, and on-site parking.

Program Reevaluation: Any STR program that is implemented should be subject to reevaluation following an initial 12 to 18-month start-up period. Reevaluation would use data gathered in the application process and TOT records.

4. Areas for further study

Parking: The Subcommittee did not make specific recommendations regarding a requirement for on-site parking. Although the Subcommittee members were generally supportive of applying the minimum residential parking standard, the Subcommittee discussion generally indicated that there was insufficient data on the number of STR units with or without on-site parking to determine if the burden on a neighborhood was substantially different whether a unit without on-site parking was rented on a long-term or short-term basis. Subcommittee members generally agreed that parking should be further analyzed and considered during the subsequent Planning Commission and City Council review.

Limitation by Proximity and Location: Subcommittee discussions included regulating STRs by location and proximity as potential limiting factors, however there was insufficient time to fully evaluate the effects of applying various proximity/separation standards. Proximity/distance between STR units warrants further investigation during the subsequent Planning Commission and City Council review.

Enforcement: Subcommittee members were unanimous about the need for effective enforcement, and suggested the STR regulations should include the ability to impose substantial fines for violations as specified in other jurisdictions. Regulations should avoid complex and variable standards that require intensive record-keeping, or which may be hard to prove and enforce on an on-going basis, such as counting days, rooms, number of guests or their ages, owner presence during a guest visit, etc. The Subcommittee suggested that the City consider using third party monitoring, such as Host Compliance,

to assist with enforcement and compliance activities, and to work with the various hosting platforms on compliance issues.

CONCLUSION:

The Subcommittee members acknowledged that this is a complex topic. Topics discussed by the Subcommittee included issues of property rights; the high cost and limited availability of housing; income generated by STR as a way for homeowners to afford to live here; and ultimately, the incredibly beautiful and desirable place we have here in Santa Cruz. Although there were differing points of view expressed during the meetings, Subcommittee members were each thoughtful, articulate and sincere in their convictions.

During the course of the seven meetings, the subcommittee received many emails both in favor of and opposed to short-term rentals in Santa Cruz. All of the information provided to the subcommittee is available on-line at the Planning Department's website, including emails received from the public and audio recordings of the meetings.

The Subcommittee members have reviewed this summary and acknowledge that this document reflects the general direction and recommendations of the Subcommittee.

This informational report has been prepared to alert the City Council that the Subcommittee has concluded their work with no action required by the City Council at this time.

The City Council will consider extending the STR moratorium on May 9, 2017. A separate agenda report is prepared for this item with a specific recommendation and timeframes for developing an ordinance. The Council will be asked to consider the moratorium extension to allow the Planning Commission and City Council to adopt an ordinance, which can then be approved by the Coastal Commission prior to becoming effective. The first scheduled meeting with the Planning Commission to hear a proposed draft ordinance will be June 29, 2017, with a recommendation for the Council consideration later this fall.

Subcommittee Members

David Green Baskin
Karen Burgess
David Foster

Timerie Gordon
Khristina Horn
Caroline Kao

Carol Polhamus
Andrew Racz
Janiece Rodriguez

Brion Sprinsock
Laura Waltz

Attachments:

1. Table of Contents for STR Information Binder and Meetings
2. STR Location Map

Short-Term Rental Subcommittee Information Binder and Meeting Documents

Meeting Dates:

December 14, 2016 Introduction meeting

January 11, 2017

- Staff Report
- Meeting notes for December 14th meeting
- City Facts
- STVR Questionnaire and Responses
- City of Napa STVR Ordinance
- Santa Cruz County Vacation Rental Ordinance
- Correspondence

January 26, 2017

- Staff Report
- Hermosa Beach STR Ordinance
- Pacific Grove STR Ordinance
- Correspondence
- Survey and Responses

February 8, 2017

- Staff Report
- Discussion Topics
- LA Times Article
- University of Austin 2015 Article on Airbnb
- Summary of Housing Planning for the City of Santa Cruz
- Correspondence
- Subcommittee Comments
- TOT Data City of Santa Cruz 2014-2016
- Survey and Responses

March 7, 2017

- Staff Report
- Subcommittee Recommendation Table
- Correspondence
- Subcommittee Comments

March 30, 2017

- Staff Report
- Regulatory Framework: Policy Objectives, Regulations, Registering/Reporting, Operations, Enforcement
- Maps of Existing TOT Registered Units in Santa Cruz

April 4, 2017

- Items of general agreement from March 30th meeting
- Map of STVRs in Santa Cruz with Hexagon Tessellation
- Subcommittee Comments

Information Binder Table of Contents

Short-Term Rentals in Santa Cruz

- Location Map-STRs in Santa Cruz
- General Plan Policies Relevant to Vacation Rentals
- City of Santa Cruz Municipal Code Definitions and Sections Relevant to Housing Vacation Rentals

City-Wide SurveyMonkey Vacation Rental Questionnaire

Market Data Studies

- Host Compliance: Practical Guide to Effectively Regulating STRs
- AirDNA: City Intelligence Report, Santa Cruz Data and analytical

Other Jurisdictions

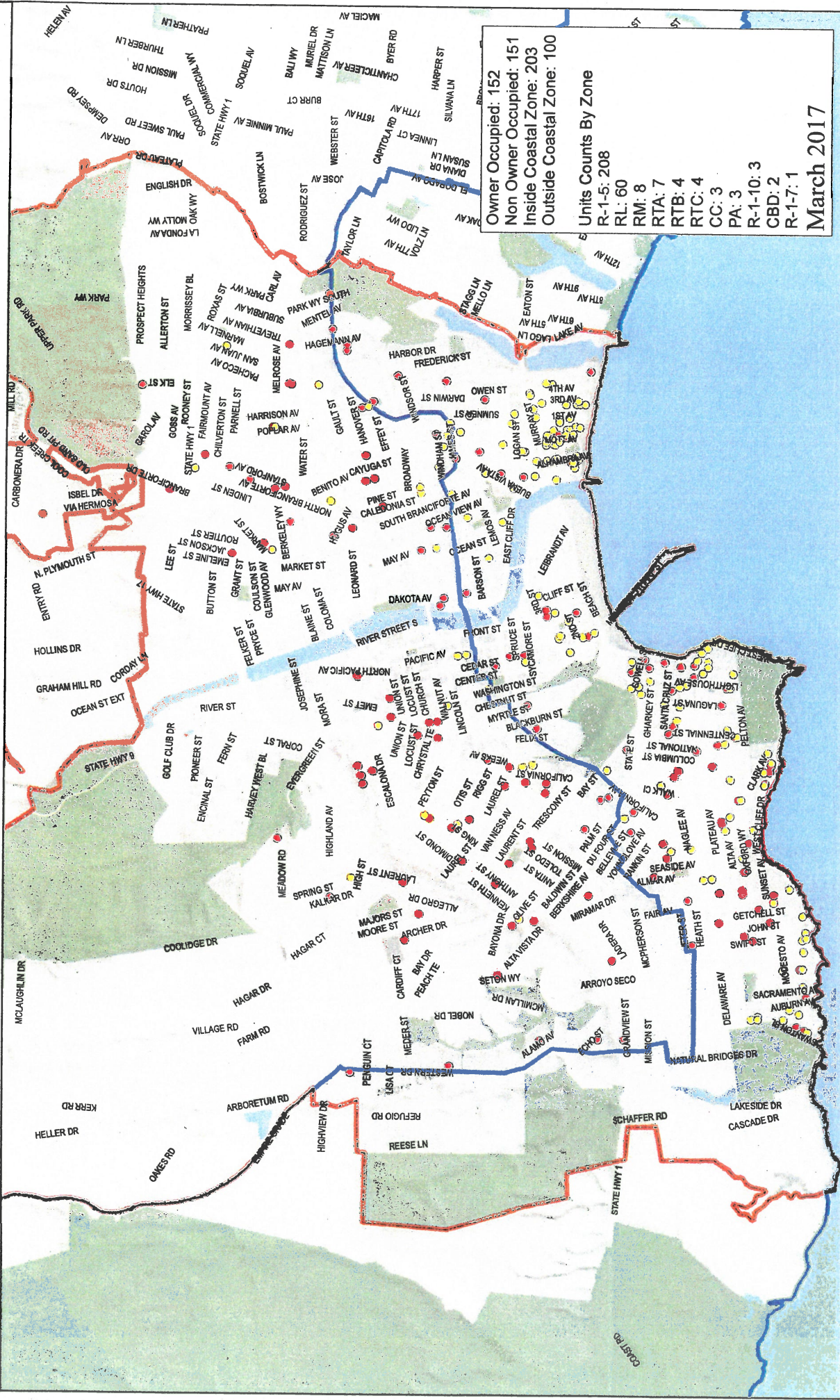
- California Coastal Commission
- County of Santa Cruz
- City of Los Angeles
- City of Sunnyvale
- City of Santa Monica
- City of Santa Barbara

News Articles

- Palm Springs Passes Wide-Range Restrictions on Vacation Rentals
- Sharp Rise in Sonoma County Vacation Rentals Offers Mix of Benefits
- Airbnb Agrees to Limit Rentals in Two European Cities

Short Term Vacation Rentals All Properties

- Owner Occupied
- Non Owner Occupied
- City Limit
- Coastal Zone



Owner Occupied: 152	Units Counts By Zone
Non Owner Occupied: 151	R-1-5: 208
Inside Coastal Zone: 203	RL: 60
Outside Coastal Zone: 100	RM: 8
	RTA: 7
	RTB: 4
	RTC: 4
	CC: 3
	PA: 3
	R-1-10: 3
	CBD: 2
	R-1-7: 1
	March 2017

