Short Term Rentals

Presented to the City Council – August 3, 2026

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Short-Term Rentals

- City staff received a request from a Councilmember to bring short-term rentals (STR) forward to City Council for a discussion.
- This item provides an update on the STR process, code compliance efforts, consideration on the collection of HOT-MOT on these rentals, and 3^{rd} party vendor services.

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Short-Term Rentals

- *<u>May 1, 2023</u>*: City Council approved the STR registration process, a $150 permit fee, and no direction to actively collect HOT-MOT.
- The City defines short-term rental as a residential premises, or portion thereof, used for lodging accommodations to occupants for a period of not less than one or more than thirty (30) consecutive days, other than an ongoing month-to-month tenancy granted to the same renter for the same premises. The definition of short-term rental does not include a hotel, motel, bed and breakfast, executive suite, or other nonresidential use.
- At that meeting, Council requested a one-year update on the program, which was inadvertently not done by staff.

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Application Requirements

- The City's application process requires operators to obtain a permit and register their STR.
- City staff review STR permits and conduct inspections of the premises.
- STR permits expire on the last day of the month, one year after the date of issuance.
- New permits are required for the continuous operation of a STR.

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Application Requirements

- Applications shall be in writing on a short-term rental application form prescribed by the city manager or his designee. The date of receipt of an application form shall be recorded by the city in a manner sufficient to verify the date of its submission. The owner or operator must submit the following information on the application form:

(1) The physical address of the short-term residential premises;

(2) The number of bedrooms and the applicable overnight and daytime occupancy limit of the proposed short-term rental premises;

(3) The owner's name, address, e-mail address, and telephone number;

(4) If the owner is not a natural person, then the name, address, and e-mail address of a natural person who has the legal authority to act for the owner;

(5) The operator's name, address, e-mail address, and telephone number;

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Application Requirements

(6) If the operator is not a natural person, then the name, address, and e-mail address of a natural person who has the legal authority to act for the operator;

(7) The name, address, e-mail address, and twenty-four (24) hour telephone number of a local contact person;

(8) A statement that the owner or operator of the short-term rental will comply with the requirements of this article, including but not limited to, obtaining annual independent inspections of required fire extinguishers in compliance with the city's current fire code, and with all applicable state and local laws, and that the owner or operator shall be liable for any violations of applicable state and local laws;

(9) When applicable, written verification from the owner that the operator is authorized to operate the premises as a short-term rental; and

(10) Such other information as the city manager or his designee deems reasonably necessary to administer this article.

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STR Inspection

- STR operator allows the city to conduct an on-site inspection of the short-term rental premises to ensure compliance with minimum health and safety requirements for use and occupancy.
- If, upon completion of an inspection, the premises are found to be in violation of one (1) or more provisions of applicable city codes and ordinances, the city shall provide written notice of such violation and shall set a reinspection date for a violation to be corrected prior to issuance of a short-term rental permit.

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Additional Requirements

- Smoke alarms and fire extinguisher.

Each short-term rental owner or operator shall provide in the short-term rental working smoke and carbon monoxide detectors, with alarms, in accordance with adopted codes, and at least one working type A fire extinguisher.

The owner or operator is responsible for obtaining annual independent inspections of the fire extinguishers in compliance with the city's current fire code. The premises shall otherwise comply with applicable Code of Ordinance requirements, including but not limited to all building and fire codes.

- Emergency evacuation routes.

Each short-term rental owner or operator shall provide in a conspicuous place in the short-term rental a dimensioned floor plan of the short-term rental identifying bedrooms, other living spaces, and emergency evacuation routes.

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Code Compliance

- There are currently nine (9) registered STRs.
- Staff received a list of possible STRs from a Councilmember. From that list, staff investigated the list and identified the following:
  - Fourteen (14) listings that were operating without proper registration, which are now under staff review.
  - Thirteen (13) listings with no evidence of current STR use.
  - Nine (9) listings outside city limits.
  - Five (5) listings in violation, with 2nd notifications sent to operators.

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Code Compliance

- The proliferation of STRs proposes challenges to city staff.
- The City has three code compliance officers, which is not enough manpower for the sustained, dedicated effort needed to adequately monitor and enforce unpermitted STRs.
- City staff has discussed 3rd party options to augment identification and outreach to STR operators.
- A 3rd party could also assist with HOT-MOT collection if City decides to move in that direction.

HOT-MOT

- STRs are not exempt from HOT-MOT tax since they rent rooms for less than 30 consecutive days.
- The state HOT-MOT rate is 6% of the price paid for lodging.
- The City charges a local HOT-MOT rate of 7%
- HOT-MOT taxes can only be used for tourism-related purposes and electronic tax administration.

Electronic Tax Administration

- If City Council decides to move forward with third-party collection of HOT/MOT, the Texas Tax Code provides the following:
- ***TEXAS TAX CODE Sec. 351.1012 ELECTRONIC TAX ADMINISTRATION SYSTEM.***

(a) Notwithstanding any other provision of this chapter, a municipality may spend each year not more than the lesser of one percent or $75,000 of the revenue derived from the tax authorized by this chapter during that year for the creation, maintenance, operation, and administration of an electronic tax administration system. A municipality may not use revenue the municipality is authorized to spend under this subsection to conduct an audit.

(b) A municipality may contract with a third party to assist in the creation, maintenance, operation, or administration of the electronic tax administration system.

Electronic Tax Administration

- However, if the city authorizes and requires the electronic tax administration system, the city also must allow the HOT/MOT collectors (hotels, STRs) to withhold from the tax payment "one percent of the amount of the tax collected" as reimbursement for the cost of collecting the tax as provided below.
- ***TEXAS TAX CODE SEC. 351.005. REIMBURSEMENT FOR EXPENSES OF TAX COLLECTION AND USE OF ELECTRONIC TAX ADMINISTRATION SYSTEM.***

(a) A municipality may permit a person who is required to collect and pay over to the municipality the tax authorized by this chapter to withhold not more than one percent of the amount of the tax collected and required to be reported as reimbursement to the person for the cost of collecting the tax.

(b) If a municipality uses revenue derived from the tax authorized by this chapter to create, maintain, operate, or administer an electronic tax administration system as authorized by Section 351.1012, the municipality shall permit a person who is required to collect and pay over to the municipality the tax authorized by this chapter to withhold not more than one percent of the amount of the tax collected and required to be reported as reimbursement to the person for the cost of collecting the tax.

(c) The municipality may provide that the reimbursement provided or required by this section be forfeited because of a failure to pay the tax or to file a report as required by the municipality.

Third Party Vendors

- Staff researched third party vendors, with an aim toward information gathering and possible assistance with the identification and administration of STRs.
- There are several companies that provide resources to local governments to aid in the administration of STRs and the collection of HOT-MOT.
- Should the City enter into a contract with a 3rd party vendor, there would a:
- 1):General Fund expense for their services;
- 2): tax revenue expenditure associated with electronic tax administration
- 3): 1% tax revenue loss associated with the required operator withholding.

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HOT-MOT Adopted Budget

- Below is a table detailing HOT-MOT as a percent of the total adopted operating budget.

Expenditure Budgets	Budget	Percent of Budget
Hot/Mot Adopted Budget	723,390	0.40%
Total Adopted Operating Budget	182,381,461	100.00%

HOT-MOT Collection Revenue

- During 1st Quarter, 27 different operators paid local HOT-MOT to City
- Amount received totaled $95,339.89
- One operator is a registered STR
- One operator has transitioned from STR to long-term rental

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Feedback/ Direction

- Staff is seeking Council's feedback and direction regarding STRS.
- Is Council interested in making any changes to the City's registration process or fee?
- Is Council interested in actively collecting HOT-MOT on STRs?
- Is Council interested in pursuing 3rd party vendors to assist with the administration of STRs and/or collection of HOT-MOT funds?

Questions/Comments

- Does the Council have any questions or requests for additional information?

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