



WORKSESSION MEMORANDUM

DEPARTMENT	PRESENTED BY	DATE
Administration	Christy Doon - Interim City Administrator	December 18, 2023

ITEM

Short Term Rental Tax Evaluation and Use of Funds

BACKGROUND

In 2022, Salida City Council submitted ballot questions to the voters (Ordinance 2022-17) asking if they wanted to see an annual \$1000 license tax on all short-term rental licenses (Question 2A). The second ballot question raised the occupational lodging tax on short-term rentals to \$15 and changed the code language from occupied room per night to per night, per room (Question 2B). The change in code language in Question 2B was proposed due to the challenge of tracking “occupied” rooms, by both the owner and the City. Unlike a hotel or motel, Short Term Rentals often rent out the property as a whole. There is an expectation that if the home is rented, there is not an opportunity for the owner to rent out additional rooms that are unoccupied by the renter. In 2022, staff recommended the change to “per room, per night” to ensure consistent and auditable tax forms for the future.

Proceeds from 2A were estimated to raise up to \$275,000 and proceeds from 2B were estimated to increase taxes by \$525,000, totaling \$800,000 in new taxes. Both questions were approved by voters – 2A by a margin of 55% yes/45% no, and 2B by a margin of 51% yes/49% no. The City began collecting these taxes on January 1, 2023. The City has collected \$717,956 for the first three quarters of 2023. Revenues from both would be used towards affordable housing.

A group of citizens submitted a petition on June 20, 2023, to repeal and replace the taxes approved in November of 2022 – to a \$540 license tax on out-of-County license holders and to \$5 per night per bedroom on all STRs. On June 29th the City Clerk sent the Letter of Initial Sufficiency to the petitioners. On August 9, 2023, after the 40-day protest period, the City Clerk sent the Final Determination letter. The petition and Citizen’s Ordinance (2023-12) to repeal and replace the taxes approved in November of 2022 was submitted to Council on August 15, 2023. This question was rejected by Salida voters by a margin of 60%yes/40% no, thus not effecting the current taxing structure.

Currently, there are 221 STR licenses and 62% of these are held by people to reside outside of Chaffee County.

Staff has identified three primary affordable housing projects, listed below, where the funds could be used over the next several years–

1. 1st and D Workforce Housing – estimated to cost approximately \$8m
2. South Arkansas Neighborhood – infrastructure and housing approximately \$14m
3. Potential Low-income Tax Credit/Senior Living Project – purchase of land approximately \$350,000

While the taxes collected from the current STR tax structure are not enough to fully fund any one of the larger projects, staff is aware of grant opportunities and low-cost financing that would allow the city to leverage the local dollars collected.

Staff have indicated that the most recent changes to the structure took approximately 8 months to implement with our software provider and numerous additional hours on the part of staff to communicate changes with STR owners, updating the website and forms.



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Staff were directed by Council to evaluate various iterations of the STR tax structure. Below is an analysis which shows revenues based on a number of scenarios.

License Tax / STR Tax Scenarios

	Currently in Place	Alternative Scenario Considerations		
		A	B	C
<u>Rates</u>				
License Fee	\$ 1,000	\$ 1,000	\$ 1,000	\$ 800
STR Tax Rate	\$ 15.00	\$ 10.00	\$ 7.50	\$ 10.00
<u>Anticipated Housing Fund Revenue</u>				
License Fee	\$ 228,000	\$ 228,000	\$ 228,000	\$ 182,400
STR Tax*	652,474	478,481	358,861	478,481
	<u>\$ 880,474</u>	<u>\$ 706,481</u>	<u>\$ 586,861</u>	<u>\$ 660,881</u>

* Each scenario assumes a 10% increase in bookings over current due to lower rates.