



## WORKSESSION MEMORANDUM

DEPARTMENT	PRESENTED BY	DATE
Administration	Christy Doon - Interim City Administrator	October 3, 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) and raising the occupational lodging tax on short-term rentals to \$15 per night, per room (Question 2B). Revenues from both would be used towards affordable housing.

Proceeds from 2A were estimated to raise up to \$275,000 and proceeds from 2B were estimated to raise up to \$525,000, totaling \$800,000. 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 \$493,963 through short-term rental occupational lodging taxes for the first two quarters of 2023 and is on track to generate close to the \$800,000 originally estimated.

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 29<sup>th</sup> 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.

City Council did not take up this ordinance and instead chose to send it to the voters as part of the November 2023 election (Question 300). A "Yes" vote on Question 300 would repeal and replace 2A and 2B and the revenues generated therein for affordable housing, up to \$297,000 – a \$504,000 reduction from current revenue projections. A "No" vote on Question 300 would keep the present taxes intact.

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. 1<sup>st</sup> 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

Base values used in calculations		
	1st 1 Qtrs 2023 actual collections	Projected 2023 Annual
License Fees	227,000	227,000
STR Tax	266,363	532,726
	493,363	759,726

## License Tax / STR Tax Scenarios

	Currently in Place (voter approved Nov 2022)	Question 300 *	Alternative Scenario Considerations			
			A	B	C	D
<u>Rates</u>						
License Fee	\$ 1,000	\$ 540	\$ 1,000	\$ 800	\$ 600	\$ 300
STR Tax Rate (room/night)	\$ 15.00	\$ 5.00	\$ 10.00	\$ 7.50	\$ 5.00	\$ 5.00
<u>Anticipated Housing Fund Revenue</u>						
License Fee	\$ 227,000	\$ 89,640	\$ 227,000	\$ 181,600	\$ 136,200	\$ 68,100
STR Tax** (room/night)	532,726	207,264	390,666	292,999	195,333	195,333
	\$ 759,726	\$ 296,904	\$ 617,666	\$ 474,599	\$ 331,533	\$ 263,433

\* For Question 300, STR tax calculations are based on applying the stated rates only to the 138 license holders who reside outside Chaffee County. Calculation is inflated by 10% to provide for some growth in rentals due to the lower rate.

\*\* Each scenario, including Question 300 assumes a 10% increase in bookings over current due to lower rates.