



WORKSESSION MEMORANDUM

DEPARTMENT Administration	PRESENTED BY Drew Nelson - City Administrator	DATE August 1, 2022
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ITEM

Potential Ballot Measure – Increased Occupational Lodging Tax on Short-Term Rentals

BACKGROUND

Following City Council discussion on options for increasing revenues to fund affordable and workforce housing measures by the City of Salida, the City Council requested additional analysis on what revenues could be generated by increasing the Occupational Lodging Tax (OLT) on just Short-Term Rentals (STRs). Any increase to the OLT specifically for STRs would need to be approved by the registered voters of Salida during the upcoming general election in November. The City Council can refer a measure to be placed on the ballot; however, the timing is such that a decision must be made soon if an item is to be referred to voters (first reading must occur at the second City Council meeting in August).

ANALYSIS

Currently, the OLT is set at \$3.66 per night (the City Council should strongly consider raising this to the maximum amount - \$4.82 per night – which can be done without a ballot measure). Staff has looked at a variety of scenarios through changing the OLT to better reflect current needs and demands to our systems:

	Base Year	Increased revenue if scenario had been in place in 2021			
	2021 Actual, OLT = \$3.66 per night	\$4.82 per night	STR at \$10, Hotels at \$4.82	STR's charged per room @ \$4.82	STR at \$10 per room, hotels stay at \$4.82
<i>See footnote #</i>		<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
OLT - Short Term Rentals	88,000	28,000	152,000	53,000	204,000
OLT - Hotels/Motels	302,000	96,000	96,000	96,000	96,000
	390,000	124,000	248,000	149,000	300,000

1 – This scenario can be implemented without a ballot initiative, it increases the OLT to the maximum amount allowed.

2 – This scenario would require a ballot initiative to increase the STR OLT to \$10 per night; there is no change to hotels other than increasing the OLT to the maximum currently allowed.

3 – This scenario would require a slight change (via ballot) to the existing OLT to clarify that the OLT would be applied to each bedroom or sleeping area rather than just each "occupied room". This would result in \$25,000 more revenue than under scenario 1 (which does not require a ballot initiative).

4 – This scenario would require a ballot initiative to increase the OLT to \$10 per night and to charge the OLT based on the number of bedrooms/sleeping areas in short-term rentals.

Staff analysis indicates that, based on prior City Council discussions, raising the OLT to the maximum allowed (\$4.82) and increasing the OLT on STRs to \$10 per night per bedroom or sleeping area would generate approximately \$300,000 in new revenues annually. Staff also looked at programs that these revenues would potentially be targeted towards, including possible deed restriction purchases on existing or future housing in Salida:



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Assumed Median Deed Restriction Buy-Down Costs for New Homes								Assumed Median Sales Price		
	120% AMI	Delta		140% AMI	Delta		160% AMI	Delta		
Studio	\$270,858	\$129,142		\$327,467	\$72,533		\$384,076	\$15,924	Studio	\$400,000
1 Bed	\$295,035	\$179,965		\$355,673	\$119,327		\$416,311	\$58,689	1 Bed	\$475,000
2 Bed	\$367,565	\$182,435		\$440,292	\$109,708		\$513,018	\$36,982	2 Bed	\$550,000
3 Bed	\$435,378	\$189,622		\$519,407	\$105,593		\$603,435	\$21,565	3 Bed	\$625,000
4 Bed	\$493,756	\$206,244		\$587,514	\$112,486		\$681,273	\$18,727	4 Bed	\$700,000

In the analysis above, the “delta” represents the difference between the assumed median sales price and what would be considered affordable under the City’s Inclusionary Housing regulations. As you can see, purchases of deed restrictions would be assumed to cost between \$18,727 and \$206,244, depending on unit size and the assumed median sales price for market rate units. This program is just one example of what revenues from an increased OLT could potentially provide for affordable and workforce housing opportunities. Other programs may include: debt service for affordable housing projects, augmenting revenues to the Chaffee Housing Authority, rental assistance programs, down-payment assistance, or other similar programs (many of which the CHA will be providing).

Last, staff was asked to analyze placing a flat tax on each STR permit, as discussed at a previous City Council worksession. Unfortunately, discussions in the community did not provide nuance on the Council’s options for a ballot measure and have focused only on the highest amount proposed. This tax would be in addition to the existing \$270 registration fee that is placed on each of the 231 existing STR permits (with an additional 8 permits possibly being approved next month). The existing fee was established via a nexus study completed in 2019. As a statutory city, Salida can only place a flat tax on these permits, and only after a ballot measure is approved by voters. Based on our existing numbers, revenues from an additional STR tax would be as follows:

License Fees, Analysis of Various License Tax Amounts	
Current Level \$270 fee per license	\$ 59,000
<i>Increased revenue if increase fee to a per license tax of:</i>	
\$500	\$ 50,000
\$1,000	\$ 160,000
\$1,500	\$ 269,000
\$2,000	\$ 378,000
\$2,500	\$ 487,000
\$3,000	\$ 597,000
\$3,500	\$ 706,000
\$4,000	\$ 815,000
\$4,500	\$ 924,000
\$5,000	\$ 1,034,000



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RECOMMENDATION

Staff requests that the City Council provide direction on whether to prepare an ordinance for your consideration to refer a ballot measure to Salida electors in November to increase the OLT for short-term rentals, and to determine what dollar amount to potentially increase the OLT to. In addition, staff requests that the City Council provide direction on language related to charging the OLT based on the number of bedrooms or sleeping areas (or other similar language, as defined in the Salida Municipal Code and approved to form by the City Attorney). The City Council should also consider and discuss the potential impacts to other ballot measures that will be submitted to voters in November, including a property tax mill levy proposed by the Chaffee Housing Authority.
