



CITY COUNCIL AGENDA REPORT

MEETING DATE: May 3, 2021

TO: City Council Members

FROM: Mary Rose Rutikanga, City Administrator

SUBJECT: Direction for amending Chapter 17.64 “Transient Residential Use” (Short-Term Rentals)

RECOMMENDATION

Provide staff direction regarding possible action of amending Chapter 17.64 “Transient Residential Use” (Short-Term Rentals).

BACKGROUND

On February 2, 2015, the City of Sonora adopted Ordinance No. 824 which added Chapter 17.64 to the Sonora Municipal Code establishing regulations of transient residential use related to vacation rental of residential facilities.

Like many cities and counties in the state of California right now, Sonora is experiencing a general housing and a housing affordability shortage that is forcing many working families and residents to look outside the city to address their housing needs. On February 22, 2021, the City Council approved the 2021 Goals and Objectives which included to **“Explore all opportunities to provide best practice and dignified solutions to our growing homeless population and low-income and affordable housing needs”**.

On March 15, 2021, the City Council gave direction to staff to agendize for discussion and possible action at a future date amending Chapter 17.64 “Transient Residential Use” of the Sonora Municipal Code to limit the number of short-term rentals in the City of Sonora.

On April 5, 2021, the City Council approved the suspension and not processing of Transient Residential Use Permit Applications effective March 16, 2021 due to several applications received and inquiries made regarding Transient Residential Use Permits after the Council gave direction to staff on March 15, 2021.

DISCUSSION

Short-term rentals are defined as dwelling units that are rented for periods lasting less than 30 days. Common examples include renting a house or an apartment for a week or weekend for a short stay or for several weeks associated with business travel or longer vacations. Short-term rentals are most commonly offered and rented through online hosting platforms such as Airbnb, VRBO, and HomeAway.

The short-term rental industry has experienced tremendous growth in the last six years since the City enacted Ordinance No. 824. In 2015, fewer than 5 people used Airbnb-hosted rentals in City. By 2019 prior to the COVID-19 Pandemic, the number of units had grown to over 46. As we are nearing the hopeful end of the pandemic, City staff continue to receive calls from potential short-term rental hosts that are currently looking to buy property or are in escrow of a piece of property with the intent to use the residential property as a short-term business.

While short-term rentals may provide income to residents and broader lodging options than the existing hotel market, there may be significant downsides to these uses. The popularity and profitability of short-term rentals has spurred an industry where dwellings are bought and used exclusively for short-term rentals, removing housing stock that would otherwise be available for longer lease terms. A rotating series of renters in residential neighborhoods may create traffic, noise, parking, and safety concerns for neighborhoods. Short-term rentals may introduce commercial uses into previously residential areas, as larger homes may be rented for "corporate retreats" and other types of commercial and business uses.

Short-term Rental Market in Sonora through 2019

46 active hosts (36 permitted units)

9 of 36 (or 25%) permitted units are the hosts' "primary residence".

\$12,200 average annual host earnings

76% of listings are for the entire home

92% of listings are single family homes

Source: Hostcompliance

ANALYSIS

Current Regulations

Short-term rentals are a new type of use that has only gained popularity in the last several years. Cities throughout the country are evaluating the impacts of the use and adopting local regulations to fit local conditions. On February 2, 2015, the City of Sonora adopted Ordinance No. 824 which added Chapter 17.64 to the Sonora Municipal Code establishing regulations of transient residential use related to vacation rental of residential facilities. The current ordinance does require that a property owner obtain a Transient Residential Use Permit and renew the permit annually. It also establishes limits to the number of persons within a unit and requires collection and payment of Transient Occupancy Tax (TOT).

Proposed Ordinance Amendments and Analysis

Recognizing that short-term rental uses are widespread and currently operating and permitted throughout Sonora, the City Council directed staff to propose an amendment to Chapter 17.64 of the Sonora Municipal Code that would look at limiting short-term rentals with operating standards addressing parking, noise and other negative impacts.

There are several key considerations with the proposed Zoning Ordinance amendment. Staff recommends the City Council consider an amendment to our current ordinance that addresses the following:

1. Allow limited short-term rental uses while preventing the loss of housing stock,
2. Preserve residential character and establish operating standards to reduce potential noise, parking, traffic, property maintenance and safety impacts on adjacent neighbors; and
3. Provide an enforcement mechanism for the City to track and enforce requirements as needed.

Allow Limited Short-Term Rental Uses While Preventing Loss of Housing Stock

Short-term rentals have been a significant concern as they may reduce housing stock available for longer lease terms. The popularity of short-term rentals, and the substantial average rent that may be collected per night has incentivized the use of dwellings as exclusively short-term rentals. In certain cases, one or two weeks of short-term rental revenue may equal the average monthly rent of a standard dwelling, motivating property owners to remove dwellings as a "residence" and shift them into permanent short-term rentals. This is a serious issue in a time when demand for housing already substantially exceeds supply.

Additional concerns include effects on residential character, and how a rotating series of guests may lead to a lack of neighborliness, with the associated noise, parking and traffic impacts, and fire safety concerns. These potential impacts are discussed in more depth in the following section. Despite these drawbacks, there are also benefits with permitting short-term rentals in the community.

Income from short-term rental may be important to homeowners and residents. Supplemental rental income can assist seniors with fixed incomes or residents who are trying to make ends meet. The short-term nature of the rental adds flexibility, allowing homeowners to adjust the rental schedule as needed. Related transient occupancy taxes (TOT) can be important to fund critical City priorities. Currently, the City charges a transient occupancy tax of 12 percent of the nightly room rate. In 2019 prior to the COVID-19 Pandemic, the city received \$502,339 in total TOT revenue.

For these reasons, City staff recommends that the City Council consider allowing for short-term rentals on a limited basis with the following operating restrictions:

Host - Person who is the owner or lessee (renter) of the property

Hosted Rental - Any short-term rental where the host is present on the premises between the hours of 10 p.m. and 6 a.m.

Unhosted Rental - Any short-term rental where a host is not present.

- **Primary Residence** - Short-term rentals would only be allowed in primary residences, where the homeowner usually lives and can provide evidence such as a driver's license, income tax statement or property tax statement with a homeowner's exemption. This would ensure that short-term rentals are not displacing residents from existing housing stock. A homeowner cannot buy multiple properties and rent them on a short-term basis under the proposed requirements. Many coastal and southern California cities have adopted regulations that require primary residency as a precursor to permitting a short-term rental. In other areas such as El Dorado County, Placer County, Truckee, the Lake Tahoe Basin and San Diego City, jurisdictions have limited short-term rentals based on a specific number of units. El Dorado County for example only allows for up to 900 total units in the unincorporated area of the Lake Tahoe Basin. San Diego City requires only 1% of the total housing stock to be allowed for short-term rentals. And the City of South Lake Tahoe passed a citizen-initiated ballot measure in 2018 that completely phases out short-term rentals by December 31, 2021.
- **Limited Number of Nights** - If the homeowner offers hosted rentals where they continue to live in the dwelling and rent a portion of the house, there is no limit on the number of nights. Staff recommends the Council consider an ordinance that limits **unhosted rentals** (where the homeowner or resident is not staying overnight) to 120 days per year. Some cities do not permit them at all (mainly coastal and southern California cities), and other cities have higher limits than 120 days. However, staff believes that 120 days a year is consistent with a long summer vacation or single season, ensuring that it may be used by a short-term renter approximately 33 percent of the year.

Preserve Residential Character

A significant concern with short-term rentals is the impact on neighborhood character. Renters unfamiliar with the neighborhood may create noise, parking or traffic impacts, and fire safety concerns for permanent residents. On-site hosts can intervene and address these concerns, however, unhosted rentals do not have management on-site to solve problems. Staff is proposing additional requirements to address potential impacts, particularly for unhosted rentals. The operating restrictions to consider:

- Prohibition on "Special Events" - Weddings, commercial functions, and similar events would be prohibited as a component of any short-term rental activity. These activities, when not associated with residency, are commercial in nature and inconsistent with the residential character of a residential district.
- On-Site Parking - On-site parking made available for the short-term renters, while hosts would be required to park on the street. This is intended to minimize conflicts in the use of shared on-street parking. There are areas in Sonora that does not allow for on-site parking, staff will need to identify those specific locations.
- Local Contact Person - For unhosted rentals, the host must designate a local contact person who can respond and take remedial action on complaints during the term of any stay. This is already a requirement in the current ordinance.
- Fire Safety – Working fire extinguishers, smoke alarms, carbon monoxide detectors, visible address numbers and defensible space as required in hotels and bed and breakfasts. The Sonora Fire Department will conduct an inspection to ensure compliance of these requirements.
- Trash Collection – each rental is required to have garbage service through the City Solid Waste Franchisee holder (currently Waste Management). Accumulation of trash outside a rental is prohibited.

Provide an Enforcement Mechanism

Enforcement of short-term rental regulations is a key consideration. Currently the City requires short-term hosts to apply for a Transient Residential Use Permit with an annual renewal process and in some cases a business license. However, there is no enforcement mechanism in the current ordinance. Enforcement options to consider:

- Fines for both property owners and guests for non-compliance.
- Revocation of a property owners' Transient Residential Use Permit for continued violations and/or non-compliance of a renewal application.

Staff is requesting the City Council provide direction to craft a draft ordinance amending Chapter 17.64 "Transient Residential Use" based on the analysis presented above. A draft of the ordinance will be provided to the City Council in June for their review prior to the ordinance being presented for approval to the Sonora Planning Commission.

FISCAL IMPACT

The City of Sonora currently receives Transient Occupancy Tax (TOT) revenue from short-term rentals, as well as business license fees. A reduction in the number of short-term rentals allowed in the city may reduce revenue received by the city.

ATTACHMENTS

- Chapter 17.64 “Transient Residential Use” of the Sonora Municipal Code
- Map of current, active short-term rentals in the City of Sonora