



# Council Agenda Report

To: Mayor Grisanti and the Honorable Members of the City Council

Prepared by: Joyce Parker-Bozylinski, Contract Planner

Reviewed by: Richard Mollica, Planning Director

Approved by: Steve McClary, Interim City Manager

Date prepared: May 25, 2022 Meeting date: June 13, 2022

Subject: Short-Term Rental Ordinance Discussion (LCPA No. 19-003)

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**RECOMMENDED ACTION:** Provide direction to staff on discussions with California Coastal Commission (CCC) staff regarding the City's proposed Short-term Rental Ordinance (LCPA 19-003).

**FISCAL IMPACT:** In Fiscal Year 2020-2021, the City received \$5.3 million (audited) in transient occupancy tax (TOT) from private residential rentals. For Fiscal Year 2021-22, actual TOT receipts are on track to out-perform the budgeted amount of \$5.0 million. The implementation of the Hosted Short-Term Rental Ordinance will have a significant impact on this revenue. Preliminary loss estimates are \$2.0 million to \$3.0 million. Changes to the Hosted Ordinance will affect this estimate but the extent to which is unknown at this time.

**WORK PLAN:** This item was included as item #4b in the Adopted Work Plan for Fiscal Year 2021-2022.

**DISCUSSION:** On November 23, 2020, the City Council adopted Ordinance No. 472, the Hosted STR Ordinance, to establish provisions to regulate short-term rental of property citywide which include, but are not limited to, requiring the presence of an onsite host during short-term rentals, primary residency requirements and multifamily restrictions. The Hosted STR Ordinance is intended to supersede the short-term rental regulations and permit program currently in place. The Hosted STR Ordinance regulations cannot go into effect until the associated amendments to the City's Local Coastal Program and Land Use Plan are certified by the California Coastal Commission (CCC). The Local

Coastal Program Amendment (LCPA), as recommended by the City Council, was received by the CCC on December 9, 2020 and is currently under its review.

CCC staff contacted City Staff to inform the City that the CCC was moving towards recommending denial of the LCPA. CCC staff believes that the hosted-only provision for single-family properties will reduce the availability of STRs in the City, and unlike Santa Monica, the City has fewer overnight accommodations (hotel rooms and bed and breakfasts) to make up for the loss of those STRs. CCC staff stated they believe that many people would not want to rent an STR if the homeowner was living in the house at the same time. CCC staff felt that single-family properties with existing guest houses or second units would be the properties that would most likely utilize the hosted-only provision since either the single-family house or the accessory building could be utilized as a STR. City staff is currently developing a list of those properties along with a list of properties with existing legal accessory structures.

CCC staff expressed a willingness to work with the City towards a mutually agreeable modification to the LCPA before the Commission considers the LCPA. The CCC must act on the amendment request by early November 2022, which means that the latest the CCC could hear the item at a public meeting would be at its October 2022 meeting which will be held in San Diego. The September meeting will be in the Central (Santa Cruz, Monterey, San Luis Obispo) area. The next scheduled meeting in the South Central (Santa Barbara, Ventura, and Los Angeles) area would be in August 2022. Any proposed modifications would need to be agreed upon well in advance of that hearing in order for CCC staff to meet staff report submittal deadlines.

In Fiscal Year 2020-21 the CCC certified LCP amendments related to STRs for the Cities of Carmel-by-the-Sea, Oxnard, and Laguna Beach as well as the County of Santa Cruz. Coastal staff indicated that while each city/county has its own set of unique issues based on local circumstances the key is to find a balance that would not overly restrict STRs while at the same time minimizing impacts on residential neighborhoods. While there were a range of approaches taken by other cities, given the hearing timeline for the City's LCPA, it would be difficult for staff to complete the needed in-depth analysis for some of the approaches taken by other cities such as limiting the number of permits by neighborhoods.

CCC staff informed City staff that other cities/counties have proposed allowing both hosted and non-hosted STRs. The CCC staff indicated that the City could consider allowing non-hosted STRs only during certain higher demand periods of the year. One of the draft ordinances considered by the City Council (August 10, 2020) established a STR permit system with three types of permits: 1) primary resident, 2) non-primary resident, and 3) multifamily with different permit requirements and permissions for each permit type. Non-primary residents could operate STRs only between April 1 and September 30 of each year. While that ordinance allowed STRs for non-primary residents only during

certain periods of the year, the Council could direct staff to work with CCC staff to consider a similar approach allowing non-hosted STRs for primary residents during certain periods of the year.

To summarize, staff is seeking direction from the Council regarding whether they want staff to work with the CCC staff to find an acceptable alternative that would allow the CCC staff to recommend approval of the City's ordinance with suggested modifications as opposed to denying the LCPA. Should the Council direct staff to work with the CCC, staff can report the results of those discussions at an upcoming Council meeting.

ALTERNATIVES: The Council could suggest different changes to the ordinance that they believe will address the concerns expressed by CCC staff or the Council could take no action. Pursuant to Coastal Act Section 3051, the maximum time extension the CCC can approve is one year. This means the CCC must take action on the City's LCPA in early November. The item could not be continued to allow additional time to work on the ordinance. If the CCC denies the LCPA, the City would need to start the process over and develop a new STR Ordinance.

ATTACHMENTS: None