

CITY COUNCIL COMMUNICATION FORM

FROM: Kim Weber, Finance Director
THROUGH: Gary Suiter, City Manager
DATE: March 8, 2022
ITEM: Fiscal Sustainability: Short-Term Rental Taxes, Fees & Incentives.

DIRECTION
 INFORMATION
 ORDINANCE
 MOTION
 RESOLUTION
 PROCLAMATION

I. REQUEST/ISSUE & BACKGROUND INFORMATION:

At the February 8th City Council worksession staff presented several taxing and fee options for Council to discuss. City Council chose three of these taxes/fees to explore further. These three items were:

1. Short-term rental tax
2. Short-term rental fee
3. Repurposing the existing accommodation's tax ("2A")

Council asked staff to bring back additional information on the first 2 items in March and delayed the discussion on the third item because the current ballot language for the accommodation's tax remains in place through 2023.

For this March discussion, City Council also asked staff to include information on programs that incentivize short-term rental (STR) units be converted to long-term rental (LTR) units.

Short-Term Rental Tax

City Council could adopt an Ordinance setting ballot language to impose a tax on all non-hotel-type short-term rentals. Based on 2021 estimates, a 1% tax would generate over \$1M per year in tax revenue. City Council would determine the tax percentage as well as the proposed use of the funds which would be included in the ballot language. With this option, there is no required study to

determine the nexus between short-term rentals and lack of long-term housing supply.

Based on information from the Colorado Municipal League, there were 6 mountain communities that proposed between .5% - 15% additional STR taxes in 2021. All six of these were passed. Three of them were passed with more than 70% of voters supporting the tax.

Short-Term Rental Fee

This option is to impose a Regulatory Fee on short-term rental units. There are two levels of regulatory fees that are being presented. The first one is a licensing fee that would pay for administration and enforcement and the second is a fee to provide a funding source for workforce housing policies and programs. Both fees can be implemented without a citizen vote.

The licensing fee can be implemented administratively after short-term rental policies are updated by City Council and would cover administrative and operating costs calculated by staff.

The workforce/affordable housing fee would require a third-party study to identify evidence that either STR units reduce LTR supply or that STRs increase the demand for LTR supply. With this evidence, City Council could implement this type of fee.

STR to LTR Incentive Programs

Recently, a few municipalities have implemented or are discussing cash incentives for property owners or property managers to convert STR units to LTR units. Attachment 3 summarizes information gathered by staff on two of these programs currently in place.

II. SUMMARY AND ALTERNATIVES:

1. Move forward with STR tax.
Pros –
 - No third-party study needed
 - Based on recent election results in other mountain towns, it is likely the voters would approve
 - Revenue use is less restrictive, however needs to be identified as part of the ballot initiativeCons –
 - Election needed
2. Move forward with STR fee for workforce housing policies and programs.
Pros –
 - No election required.

- Identify nexus between additional revenue and fees paid.
- Cons –
- Need 3rd party study to justify fee
3. Create a strategic approach to investigate STR to LTR incentive program.
- Pros –
- Approach strategically and complete cost/benefit analysis.
- Cons –
- Takes time to establish a program.
 - Allocates City resources to complete this without a funding source.
4. Continue with policy discussions without moving forward with options 1, 2, or 3 currently.

III. STAFF RECOMMENDATION:

If City Council's goal is to create a revenue source for workforce housing programs, staff recommends a STR tax. This option provides additional flexibility with the amount and the use of the funds generated. There is also evidence that the community would support this tax.

IV. FISCAL IMPACT:

City Council approved a grant application on March 1st that includes funding a scope of work that could be utilized for a nexus study for STR fees and/or development of a STR to LTR incentive program.

Other fiscal impact varies depending on preferred direction.

V. LEGAL ISSUES:

Based on TABOR, any new taxes require voter approval and fees require an established nexus between fee and service.

VI. CONFLICTS OR ENVIRONMENTAL ISSUES:

None noted.

VII. CONSISTENCY WITH COUNCIL GOALS AND POLICIES:

Short-Term Rental

"Evaluating the possibility of a November 2022 ballot question for a short-term rental excise tax or a vacancy tax."

ATTACHMENTS:

- Attachment 1 - Presentation
- Attachment 2 - CAST Survey
- Attachment 3 - STR to LTR Incentive Programs