



The City of San Diego

Staff Report

DATE ISSUED: September 27, 2021
TO: City Council
FROM: Office of the City Treasurer
SUBJECT: Short-Term Residential Occupancy, Application and Licensing Fee

Primary Contact: Tricia Mendenhall Phone: (619) 235-5833
Secondary Contact: Elizabeth Correia Phone: (619) 236-7157

Council District(s): Citywide

OVERVIEW:

Approval of the proposed Short-Term Residential Occupancy (STRO) application and licensing fees. Council Policy 100-05 requires user fees to be first reviewed by the Budget and Finance Committee (now the Budget and Government Efficiency Committee); staff requests approval for this requirement to be waived. The proposed fees are intended, as required by Council Policy 100-05, to provide full cost recovery for estimated costs associated with the implementation, administration and enforcement of the STRO Ordinance (Ordinance).

PROPOSED ACTIONS:

1. Approve waiver of requirement that user fees must first be reviewed by the Budget and Finance Committee (now the Budget and Government Efficiency Committee) as set forth in Council Policy 100-05, User Fee Policy.
2. Approve a resolution to adopt fees for Short-Term Residential Occupancy applications and licensing to be effective on or before March 1, 2022.

DISCUSSION OF ITEM:

The Ordinance requires a license for all short-term residential occupancy of a dwelling unit, or part thereof, for less than one month beginning July 1, 2022. There are four (4) license types with varying requirements on the number of days and types of dwelling available for the short-term residential occupancy. A host may only hold one license and operate one dwelling unit for STRO at a time; licenses are not transferrable between ownership or location/dwelling unit. All licenses will expire two (2) years from the date of issuance and may be renewed in accordance with the Ordinance.

Although the City currently requires registration and self-reporting of Transient Occupancy Tax (TOT) for properties rented to transients (persons who exercises occupancy or is entitled to occupancy for less than one (1) calendar month), the TOT registration application does not currently request the type of information necessary to accurately determine the number and types of licenses that will be issued. In addition, many hosts who collect and remit through an online hosting platform may not have registered for a TOT certificate.

Therefore, utilizing limited data obtained from 2019 internet listings, we have estimated the number of STRO licenses that may initially be issued as shown in Table A.

Table A – Estimated Number of Licenses that will be Issued

License Type	Description	Estimates Number of Licenses
Tier 1 – Part-Time (Unlimited)	Rented for an aggregate of 20 days or less per year and the owner or permanent resident does not need to reside onsite during the STRO	3,803
Tier 2 – Home Share (Unlimited)	Renting of a room or rooms more than 20 days per year so long as the owner or permanent resident resides onsite	2,730
Tier 3 – Whole Home	Whole home rentals, for more than 20 days per year, outside of the Mission Beach Precise Planning Area (MBPPA)	5,416 (1)
Tier 4 – Whole Home (MBPPA)	Whole home rentals, for more than 20 days per year, in MBPPA	1,081 (1)
Total		13,030

Note (1) - Per section 510.0104 (d)(4) of the Ordinance, the total number of Tier 3 licenses shall not exceed 1 percent of the total housing units in the City of San Diego, excluding total housing units within the MBPPA, based on most recent Demographic and Socioeconomic Housing estimates issued by SANDAG, rounded up to the next whole number for Tier 3 licenses. Section 510.0104 (e)(4) of the Ordinance limits Tier 4 licenses to 30 percent of the total housing units in MBPPA. Based on 2020 estimates, there are [545,149](#) total housing units in the City of San Diego and [3,602](#) in MBPPA. This results in 5,416 Tier 3 licenses available $((545,149-3,602).01)$ and 1,081 Tier 4 licenses available $(3,602*.30)$.*

To implement, administer and enforce the Ordinance, the City will require additional staff and incur various one-time and on-going non-personnel expenses as depicted in Table B below. Staff is requesting a total of 15.5 full time equivalent (FTE) employees for Development Services Department Code Enforcement, the Office of the City Treasurer, and the City Attorney. Estimated expenses also include of \$477K in one-time non-personnel expenses for the implementation of licensing software and new phone system as well as three new City vehicles for enforcement, and \$146K for on-going non-personnel expenses for support and maintenance costs and other anticipated supply needs.

Table B: Total Estimated Cost of Implementation, Administration and Enforcement

Description	FTE (ongoing)	One-time Costs	Ongoing Cost over 2 Years	Total
Treasury Personnel/Misc NPE	5.50	\$ 749,390	\$ 2,417,260	\$ 3,166,650
DSD Personnel/Vehicles	9.25	\$ 120,000	\$ 3,947,485	\$ 4,067,485
City Attorney Personnel	0.75		\$ 350,073	\$ 350,073
PandA Personnel/NPE (Lottery Administration)		\$ 34,686	\$ 41,622	\$ 76,307

Licensing Software (Accela) (1)		\$ 215,893	\$ 93,456	\$ 309,349
Amazon Connect (phone)		\$ 127,500	\$ 15,756	\$ 143,256
Total	15.50	\$ 1,247,469	\$ 6,865,652	\$ 8,113,121

Note (1) – Costs for licensing software (Accela) includes implementation and ongoing maintenance only. Staff will leverage the STRO module as part of the current City contract with Accela.

The proposed STRO application and license fees are based on the estimated number of licenses that will be issued per Tier (Table A) and the total estimated costs (Table B). In addition, the following considerations and assumptions were made when developing the proposed fee structure (Table C):

- The application and license fees are set with the intent to provide full cost recovery of both direct and indirect costs in accordance with Council Policy 100-05.
- The total one-time costs will be allocated over the first 2 years of the program. Application and licensing fees will be re-evaluated using actual costs incurred and licenses issued by Tier during fiscal years 2022 through 2024. Staff will return to City Council, if adjustments to the fees for Fiscal Year 2025 are needed.¹
- It is anticipated that the majority of staff time (both for administration and enforcement) will be spent on Tier 3 and Tier 4 licenses.
- Applications fees are non-refundable and recommended to be distinct to recover costs of staff time needed to ensure applications submitted are accurate and complete.

Table C: Proposed Application and License Fees per Tier

	Estimated number of Licenses issued	Application Fee	Fee for a 2-year license	Total paid by Host for 2-year license	User Fee Category
Tier 1	3,803	\$ 25	\$ 100	\$ 125	Category 1 – 100% cost recoverable
Tier 2	2,730	\$ 25	\$ 225	\$ 250	Category 1 – 100% cost recoverable
Tier 3	5,416	\$ 70	\$ 1,000	\$ 1,070	Category 1 – 100% cost recoverable
Tier 4	1,081	\$ 70	\$ 1,000	\$ 1,070	Category 1 – 100% cost recoverable
Totals	13,030				

¹ The application of the Ordinance inside the Coastal Overlay Zone are subject to the California Coastal Commission (CCC) jurisdiction. As a result, the Ordinance must be unconditionally certified as a local coastal program amendment prior to it taking effect in the Coastal Overlay Zone. Delay of the CCC certification would impact these dates.

In addition to providing full cost recovery of both direct and indirect costs, the proposed fees are in line with STRO license and application fees assessed by other municipalities.

City Strategic Plan Goal(s)/Objective(s):

The Ordinance supports the following City of San Diego Strategic Plan goals and objectives by balancing the economic opportunity created by STRO, protecting the rights of property owners and renters, and ensuring the safety of hosts, guests and neighbors of these units.

Goal 1: Provide high quality public service: Ensure equipment and technology are in place so that employees can achieve high quality public service.

Goal 2: Work in partnership with all our communities to achieve safe and livable neighborhoods; Reduce and prevent crime.

Goal 3: Create and sustain a resilient and economically prosperous City with opportunity in every community; Diversify and grow the local economy.

Fiscal Considerations:

The total one-time costs of \$1.25 million are expected to be incurred in fiscal year 2022. The on-going costs of \$6.87 million will be incurred in fiscal years 2023 and 2024.

Revenue of \$6.95 million associated with Tier 3 and Tier 4 licenses will be received in fiscal year 2022 (during the initial application/lottery period). While it is anticipated that most of the revenue associated with Tier 1 and Tier 2 license issuance (\$1.15 million) will also be received in fiscal year 2022, the application period for Tier 1 and Tier 2 licenses is ongoing and therefore, revenue associated with these license types will likely continue to be received in fiscal years 2023 and 2024.

Application and license fees proposed are intended to provide full cost recovery of both direct and indirect costs of implementation, administration, and enforcement of the STRO requirements as outlined in the Ordinance.

However, the City does not have the number of STRO properties currently operating and therefore, the number of licenses anticipated to be issued is an estimate. If the number of licenses issued is lower than estimated, the application and license fees will not provide full cost recovery.

In addition, the implementation of the Ordinance is expected to reduce the amount of the ongoing TOT revenue received by the City as provided in [IBA Report 21-06, Impacts of Proposed Short-term Residential Occupancy \(STRO\) Regulations on TOT Revenue](#).

Charter Section 225 Disclosure of Business Interests:

N/A

Environmental Impact:

This activity, approval of the proposed STRO application and licensing fees, is not a project pursuant to CEQA Guidelines Section 15378(b)(4), as it involves the creation of a government funding mechanism or other fiscal activity that does not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment. As such, this activity is not subject to CEQA pursuant to CEQA Guidelines Section 15060(c)(3).

Equal Opportunity Contracting Information (if applicable):

N/A

Previous Council and/or Committee Actions:

On December 3, 2020, the Planning Commission recommended to the City Council approval of amendments to the City's Municipal Code and Local Coastal Program to impose a license requirement and operating

regulations for STRO including regulating hosting platforms and repealing regulations for bed and breakfast and boarder lodging.

City Council considered regulations governing STRO on February 23, 2021 and approved the regulations on April 6, 2021.

Key Stakeholders and Community Outreach Efforts:

From April 2021 through today, the City has convened various meetings with stakeholders including community groups and online hosting platforms.

Elizabeth Correia _____

City Treasurer

Matthew Vespi _____

Chief Financial Officer