



The City of San Diego

Staff Report

DATE ISSUED: September 27, 2001
 TO: City Council
 FROM: Office of the City Treasurer
 SUBJECT: Short-Term Residential Occupancy, Tier 3 and 4 Lottery Methodology

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Council District(s): Citywide

OVERVIEW:

As requested by City Council on February 23, 2021, this item is to present the lottery methodology for Tier 3 and Tier 4 Short-Term Residential Occupancy (STRO) license issuance.

PROPOSED ACTIONS:

This item is information only.

DISCUSSION OF ITEM:

BACKGROUND

Beginning July 1, 2022, the City will require Short-Term Residential Occupancy (STRO) licenses and begin regulation to *"preserve its available housing stock and the quality of life in its residential neighborhoods and to alleviate the impacts to residential neighborhoods caused by STRO"* (O-21305).

The STRO Ordinance (Ordinance) requires a license for all STRO of a dwelling unit, or part thereof, for less than one month. There are four (4) license types with varying requirements on the number of days and type of dwelling available for the STRO. 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.

Hosts offering whole home STRO for an aggregate of more than 20 days per year are required to obtain a Tier 3 or Tier 4 license; Tier 3 if the dwelling unit is outside the Mission Beach Precise Planning Area (MBPPA) and Tier 4 if the dwelling unit is within the boundaries of the MBPPA.

The number of Tier 3 and Tier 4 licenses available are limited and based on a set percentage of total housing units using SANDAG's Demographic and Socioeconomic Housing estimates rounded up to the nearest whole number (see table below). The number of available licenses will be updated at least every two (2) years following the release of SANDAG's housing estimates and will not be reduced below the total number of Tier 3 and Tier 4 licenses available in the prior two-year period.

Tier 3 License	Tier 4 License
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1% of total housing units in San Diego less total housing units in MBPPA	30% of total housing units in MBPPA
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For Tiers 3 and 4, if accurate and complete applications received exceed the number of available licenses, then issuance of licenses will be based on a lottery system. The Ordinance requires that administrative rules be implemented to administer the lottery.

LOTTERY ELIGIBILITY

Only a STRO host may apply for a license and in general, STRO applications must meet the following requirements to be eligible for a license:

- Proof of Transient Occupancy Tax (TOT) Certificate number for the dwelling unit or proof of concurrent application for a Transient Occupancy Tax Certificate for the dwelling unit,
- Proof of payment of Rental Unit Business Tax, if applicable,
- No pending City enforcement actions for the dwelling unit for violations of any provision of the San Diego Municipal Code (SDMC), unless the approval of a license is required to resolve the enforcement action, and
Note that a pending enforcement action may include any debt owed to the City of San Diego that has been referred to Treasurer’s Delinquent Accounts. Examples include non-payment of TOT, Tourism Marketing District (TMD) assessment and Rental Unit Business Tax.
- Submit an STRO license application that is accurate and complete no later than the application submission date.

REGULATION

The Office of the City Treasurer will establish a lottery application submission date each calendar year. The date will be published on the STRO webpage no later than March 31.

If the total number of Tier 3 and/or Tier 4 applications received are greater than the number of licenses available, applications will be chosen via a random lottery for license issuance. The results of the lottery will be posted no later than May 31¹.

Tier 3 and Tier 4 license issuance will be done via computer-generated randomization and will be conducted by a third-party or a department independent of the Office of the City Treasurer. The lottery will be conducted as follows:

- *Tier 4* license issuance will be based on a simple randomization; all license recipients will be selected at random.
- *Tier 3* license issuance will be performed via a stratified lottery. Stratification of the applicant pool will be completed based on the Community Planning Area (CPA) in which the STRO property is located. The license recipients will still be selected at random within each CPA. The percentage of licenses issued in each CPA will be proportionate to the percentage of applications received for STRO properties in each CPA.

The table below represents a simple example of stratification. In this example, 5,000 licenses are available for issuance and 6,850 applications were received. Those applications came from hosts with dwelling units in 5 different CPAs. A stratified approach will result in the dwelling units

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.

receiving licenses proportionate to the applicant pool. Without stratification, license distribution could result in all the hosts that receive licenses being in only 4 of the 5 CPAs.

Licenses available: 5,000

CPA	Applications Received	% of total Received	License Distribution with Stratification	Potential License Distribution without Stratification
Pacific Beach	2,250	33%	1,650	2,000
North Park	1,500	22%	1,100	1,250
University	800	11%	550	800
Downtown	250	4%	200	0
La Jolla	2,050	30%	1,500	950
Total	6,850		5,000	5,000

If accurate and complete (eligible) applications do not exceed the number of licenses available, all applicants will receive a license. Subsequent lottery application submission dates will be established if licenses remain available. Each lottery priority application submission date will constitute a separate lottery process.

All eligible applicants that did not receive a license as part of the lottery process, will be placed on a waiting list. On a quarterly basis, a review will be conducted to determine if additional licenses have become available (cancelled by host, revocation, etc.). If licenses are available, an additional lottery may be conducted following the lottery process outlined above.

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:

None

Charter Section 225 Disclosure of Business Interests:

N/A

Environmental Impact:

This activity is not a project as defined by the California Environmental Quality Act Section 21065 and State CEQA Guidelines Section 15378(b)(5), as it is an organizational or administrative activity of government that will not result in direct or indirect physical changes in the environment and therefore this activity is not subject to CEQA, pursuant to 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 repeal regulations for bed and breakfast and boarder lodging.

City Council considered regulations governing short-term residential occupancy (STRO) on February 23, 2021 and approved on April 6, 2021.

Key Stakeholders and Community Outreach Efforts:

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

Elizabeth Correia _____

City Treasurer

Matthew Vespi _____

Chief Financial Officer