



NEWPORT BEACH

City Council Staff Report

August 9, 2016
Study Session Item No. SS3

TO: HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL

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TITLE: Short-Term Lodgings (STLs)

ABSTRACT:

Following an overview of the City’s permit regulations for short term lodging (STL) at the January 26, 2016 Council study session, staff was directed to review several topics and obtain feedback from the community. The following details the efforts conducted and conclusions made to date.

DISCUSSION:

Per City Council direction, staff has completed the following:

1. Public outreach including the following events/discussions:
 - March 23rd and June 21st Community Meetings
 - Newport Beach Association of Realtors
 - Balboa Island Improvement Association
 - Individual meetings with Residents and Realtors
2. Evaluated allowing STL in some R-1 zones on the Peninsula
3. Developed a draft definition of “homesharing”
4. Expanded operational standards for vacation rentals reflective of best practices and public input
5. Pursued agreements with the online services to disclose rental information and submit Transit Occupancy Tax to City

While vacation rentals are part of the culture in certain communities in the city, there are numerous concerns that the increase in the number of STLs is impacting neighborhoods, and that there are STLs being established in areas where they are not permitted. Staff has also learned that there are very responsible professional management companies that focus on vacation rentals, which result in minimal, if any, impacts to the neighborhood.

Based on the significant amount of suggestions and feedback received from the community, staff offers the following recommendation for Council’s consideration.

Staff Recommendation

To maintain the character of the City's residential neighborhoods, a two phased approach is outlined below.

Phase One – Implement through Summer 2018, which includes 2 Summer Seasons

- 1. Expand the STL Operational Requirements.** See Attachment 1. STL permits are subject to standard conditions listed in Municipal Code Section 5.95.050, which was last updated in 2003. Comments from residents, as well as STL managers, indicate the need for a more robust list of conditions to ensure that best practices are implemented. It is also recommended that the operational standards be separate from the Municipal Code so that they can be updated as needed, as determined by the City Manager. The standards would be posted on the city's website and attached to all STL permits.
- 2. Require permits to be renewed on an annual basis.** Currently STL permits are issued on a one-time basis. Offering a streamlined, on-line service would allow permits to be renewed more easily, and an annual renewal will ensure that operators are kept aware of the City's operational standards.
- 3. Require Property Owner to Submit HOA verification.** Prior to the City's issuance of a STL permit, documentation from the homeowner association shall be submitted verifying that respective HOA's CC&Rs allow for vacation rentals. This requirement may also be included in Municipal Code.
- 4. Require a Minimum Stay – 4 nights or other appropriate #.** Requiring a minimum night stay is common for most STL management companies. Longer rentals reduce guest turnover and associated impacts such as large amounts of trash, frequent cleaning services, and personnel and laundry. Staff recommends that this be included as a new operating standard.
- 5. Include "Homesharing" in Municipal Code definition.** Homesharing is the practice of leasing one room within a residential unit where the owner, tenant, agent, or rental manager is the long-term occupant of the unit. Transient occupancy taxes are also collected for Homesharing. Homesharing does fall within the City's definition of a short-term rental, but staff recommends that the term be clearly identified in the Municipal Code.
- 6. Phase out the 212 "grandfathered" single family properties.** STL permits located in single-family zones which were issued prior to June 1, 2004 are considered "grandfathered" and there is not a Municipal Code provision to phase out the ability to have a STL permit. There are 212 "grandfathered" properties, and 92 have active STL permits. To maintain the single-family character of these neighborhoods and eliminate the inequity created by the ability for these properties to obtain STL permits in the single-family zones, staff is recommending that these properties be phased out by an appropriate amortization period such as 10 years or perhaps less.

7. **Increase Code Enforcement Program.** The community would benefit greatly with the implementation of a more aggressive enforcement program aimed at vacation rentals. While vacation rentals are part of the community's culture, the increase in these uses has the potential to impact the quality of life for residents. For this reason, enforcement of best practices and elimination of vacation rentals in unpermitted zones is critical. A comprehensive Code Enforcement Program is attached which would be supported by one part-time contract position in Code Enforcement, another part-time contract position in the Revenue Division and an outside vendor. The total annual cost of the Code Enforcement Program is \$204,000 to \$211,000.
8. **Continue to negotiate with online host platforms.** Discussions with on-line platforms continue, but with limited progress. Therefore, an effective code enforcement program is critical.

Phase Two – Evaluation of Phase 1 Effectiveness

Staff would return to the Council in Fall 2018 with monitoring data to determine the effectiveness of Phase One in improving compliance with the STL provisions. If additional regulations are needed, considerations may include establishing a cap on the total number of STL permits issued citywide or geographically, extending the length of minimum stay requirements, limiting the number of days any particular property could be used for vacation rentals, and/or other more aggressive code enforcement efforts.

Phase Two may also include increased audits to improve compliance with transient occupancy tax requirements. Currently, audits are limited to hotels which are conducted by a city employee. Recognizing the growth of STL permits in the City and the limits of the current auditing efforts, a contract employee devoted to the auditing and enforcement of the City's Municipal Code transient occupancy tax provisions would increase compliance. A full time, contract auditor is estimated to be \$110,000 annually.

Not Recommended

1. **Expansion of STL areas.** STL is currently permitted in residential zones, with the exception of single-family and some Planned Community districts. The City Council requested staff review allowing STL within the few small pockets of single-family districts on the Peninsula which are located amongst two-unit residential districts. Research reflects that many of these single family districts were re-zoned to single family in 1989 due to their small size, while other areas have historically been designated single family. The purpose of precluding STL in single family neighborhoods is to maintain the single-family character of these areas. Therefore, expansion of the areas where STL is permitted is not recommended.

CONCLUSION

With City Council's direction, staff will return to a regular meeting to request consideration of necessary amendments to the Municipal Code and additional resources required for implementation. The correspondence received to date are contained in Attachment C.

ATTACHMENTS:

- Attachment A – Proposed Operating Standards
- Attachment B – Code Enforcement Program
- Attachment C – Correspondence