



MEMORANDUM

TO: City Council

FROM: Brian Pedrotti, Community Development Director

BY: Patrick Holub, Associate Planner

SUBJECT: Discussion and Consideration of Introduction of Ordinance Amending Title 16 of the Arroyo Grande Municipal Code Regarding Short Term Rentals (Vacation Rentals and Homestays); Development Code Amendment 22-002

DATE: September 27, 2022

SUMMARY OF ACTION:

Introduction of the proposed Ordinance regulating Short Term Rentals.

IMPACT ON FINANCIAL AND PERSONNEL RESOURCES:

In accordance with Chapter 3.24 of the Arroyo Grande Municipal Code (AGMC), Short Term Rentals are required to pay the City's transient occupancy tax (TOT) in the amount of 13.5% of the rent charged by the operator, 10% of which is retained by the City, 2% is provided to the Arroyo Grande Tourism Business Improvement District (AGTBID), and 1.5% is provided to the San Luis Obispo County Tourism Marketing District (SLOTMD) (Visit SLO Cal). The City received an estimated \$150,000 in FY 2021-22 in TOT from Short Term Rentals.

RECOMMENDATION:

Introduce an Ordinance amending Title 16 of the AGMC regarding Short Term Rentals.

BACKGROUND:

On June 10, 2014, the City Council adopted Ordinance No. 663, establishing vacation rentals and homestays (Short Term Rentals or STRs) as permitted land uses in the City's residential zoning districts, subject to the approval of a Minor Use Permit-Plot Plan Review (Attachment 2). A vacation rental is defined as a structure being rented for less than thirty (30) days without concurrently being occupied by the owner/operator, while a homestay is defined as an owner-occupied dwelling unit where a maximum of two short-term lodging rooms are provided for compensation. These two uses are collectively known as Short Term Rentals or STRs.

Item 9.a.

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On October 12, 2021, the City Council directed staff to bring back a discussion item at a future meeting to evaluate Ordinance 663 after receiving public comment expressing concerns regarding the recent proliferation of STRs, the application and appeal process associated with STRs, and other related issues such as the same street buffer.

On March 22, 2022, the City Council conducted a study session regarding the existing short-term rental ordinance. The Council made a number of recommendations, including:

- Establishing a cap on the overall number of vacation rental approvals that can be granted;
- Contracting with an enforcement company to identify unpermitted rentals;
- Altering the methodology for how the buffer distance between rentals is calculated;
- Establishing objective revocation triggers;
- Requiring that all mailing labels for vacation rentals be provided by the City and paid for by the applicant;
- Improving performance standards to ensure greater compatibility with the neighborhood;
- Consider an expiration clause; and
- Considering whether to impose a parking requirement.

A Resolution containing a draft Ordinance was developed from these discussion points for the Planning Commission's consideration. On August 2, 2022, the Planning Commission conducted a noticed public hearing to consider the proposed revisions to AGMC Sections 16.52.230 and 16.52.240 and adopted a Resolution recommending the City Council adopt an ordinance amending the regulations regarding Short Term Rentals. Their recommendations included the following amendments:

1. Establish a cap on vacation rentals of 120.
2. Increase the buffer between Short Term Rentals of all kinds to 500 feet and provide a buffer from all schools of 500 feet.
3. Initiate revocation procedures if a designated emergency contact is unresponsive three consecutive times or if a citation is issued to a short-term rental tenant by the Police Department.
4. Require that Short Term Rental permits expire at the point of sale of the property.
5. Require that any unit previously occupied by a long-term renter within the past year be ineligible to become a short-term rental.
6. Incorporate the same proposed performance standards for homestays as vacation rentals.
7. Provide two parking spaces off-street for all short-term rentals. The parking spaces can be covered or uncovered.

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On September 13, 2022, the City Council considered introduction of a draft Ordinance to incorporate changes to the short-term rental regulations consistent with feedback received from the Planning Commission and City Council. During that meeting, the City Council provided feedback on each recommended amendment to the Ordinance and directed staff to make additional changes to the proposed Ordinance. The hearing to introduce the proposed Ordinance was continued to September 27, 2022.

ANALYSIS OF ISSUES

At its September 13, 2022 hearing, the City Council provided the following direction to staff regarding the proposed STR Ordinance:

1. Cap the total number of vacation rental approvals at ninety (90);
2. Concur with Planning Commission's recommendations to increase the buffer distance to five-hundred feet (500') between STRs of all types and to create a buffer distance of five-hundred feet (500') from any school;
3. Clarify that an emergency contact shall be deemed unresponsive if no answer is received to a complaint call and that if the emergency contact is unresponsive three times in a rolling twelve (12) month period, in which case revocation proceedings shall be initiated. Furthermore, if two arrests are made or citations issued to STR guests within a rolling twelve (12) month period, revocation proceedings shall be initiated;
4. Clarify the language in the draft Ordinance to indicate that violations of the performance standards will allow staff to initiate revocation proceedings;
5. Clarify that revocation proceedings will include a public hearing;
6. Include information in the City's host compliance consultant's forthcoming outreach letters informing STR permit holders of their option to voluntarily relinquish their approval;
7. Require that all STR hosts remit TOT every six months, otherwise revocation proceedings can be initiated;
8. Remove the Planning Commission's recommended parking requirement for homestays; and
9. Concur with staff's recommended changes to the definitions of homestays and vacation rentals.

Each of the City Council's recommended changes to the draft Ordinance have been incorporated and are included in the attachments to this staff report.

Following the September 13, 2022 hearing, staff considered whether a minimum amount of TOT should be required of STRs during each 6-month period of TOT payment. Should Council wish to incorporate such a requirement, the Ordinance may be modified prior to reintroduction during the hearing. Following introduction, the Ordinance will be presented for adoption at the next regular City Council meeting.

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ALTERNATIVES:

1. Introduce the proposed Ordinance amending the Short-Term Rental regulations within the City;
2. Revise and introduce an Ordinance amending the Short-Term Rental regulations within the City; or
3. Provide other direction to staff.

ADVANTAGES:

Introduction of the proposed Ordinance will allow the City to further regulate Short Term Rentals in a manner that is harmonious with the existing character of the neighborhoods in which the rentals exist.

DISADVANTAGES:

If the proposed Ordinance is ultimately adopted, it will establish a cap on Short Term Rentals that will reduce potential TOT revenue from new STRs. Furthermore, adoption of the Ordinance will render all existing STRs legally nonconforming.

ENVIRONMENTAL REVIEW:

In compliance with the California Environmental Quality Act (CEQA), the Community Development Department has determined that the adoption of an ordinance to implement amendments to the short-term rental regulations is categorically exempt from CEQA pursuant to Section 15305 – Minor Alterations in Land Use Limitations.

PUBLIC NOTIFICATION AND COMMENTS:

The Agenda was posted at City Hall and on the City's website in accordance with Government Code Section 54954.2.

Attachments:

1. Proposed Ordinance
2. Proposed Ordinance with redlines showing changes from September 13, 2022 introduction
3. Minutes from the September 3, 2019 Planning Commission meeting
4. Minutes from the October 12, 2021 City Council meeting
5. Staff Report and Minutes from the March 22, 2022 City Council meeting
6. Staff Report and Minutes from the August 2, 2022 Planning Commission meeting
7. Staff report and attachments from the September 13, 2022 City Council meeting
8. Draft Minutes from the September 13, 2022 City Council meeting