

Attachment D

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ATTACHMENT D – DETAILED DISCUSSION

Changes to Ordinance since November 2020 Hearing

Character and Intensity

Defining Limited Vacation Rentals – Changes to the ordinances include modifying the definitions of Limited Vacation Rentals (LVRs) and Commercial Vacation Rentals (CVRs) based on the duration and frequency of stays as directed by the Board. LVRs are defined as a residential property rented by the Operator for not more than three times per 12-month period with each such rental not to exceed 14 consecutive calendar days. Should the vacation rental occur more than three times or exceed 14 consecutive calendar days, the Vacation Rental would then be considered a CVR. With the limitation on frequency and duration, the use would be similar in character, density, and intensity to residential use, and is not anticipated to remove long-term housing from the market. Therefore, LVRs would be an allowed use, where applicable, not requiring a discretionary entitlement. LVRs would still be required to obtain an annual Vacation Rental Operation Permit (VROP), which would be a ministerial process, and a Business License.

Commercial Vacation Rentals are defined as a residential property rented by the Owner or Operator for more than three times per 12-month period and would be required to obtain the appropriate discretionary entitlement applicable to the respective zoning district, which would be Use Permit in the inland area and a Coastal Development Permit in the coastal zone. The process for CVRs would also include obtaining an annual VROP and Business License.

The draft ordinances presented in November included an initial permit term for the discretionary permit of 5 years with the ability to renew up to two times for a total term of 15 years. Given the Board direction to significantly restrict LVRs to only three rentals per year, the threshold for a CVR is lower and, therefore, many more vacation rental operations will require discretionary permit approval. This modification to the proposed regulations could result in significantly more discretionary permits being processed on a 5-year basis, likely to cause a significant burden on staff time resulting in permit processing delays and a higher cost to applicants. In response, the draft Title 20 and Title 21 ordinances have been modified to provide that the discretionary permits are issued for a term of 15 years, and the ordinances eliminate the five-year renewal proposal.

Relationship to Conditions, Covenants and Restrictions – The Board was concerned with issuing a permit for a vacation rental operation on a property that may be subject to conditions, covenants, and restrictions (CC&R) or other recorded restrictions that could limit or prohibit the vacation rental activity. Based on direction of the Board, the draft ordinances have been updated to require that the applicant to attest that the proposed vacation rental does not violate any applicable CC&Rs on real property. The processing of land use entitlements for CVRs would include established noticing requirements within Title 20 or Title 21, including providing notice to any affected homeowners' association. Further, updates to the ordinance for the VROP process were added to include an informational letter, as described below, which the homeowner's association would receive as well.

Affidavit & Informational Letter – The draft ordinances were updated to require a Vacation Rental Operator, upon submittal of a VROP, to acknowledge and sign an affidavit that they have researched any CC&Rs to which the property is subject and verified that to their knowledge

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operating the Vacation Rental is not in violation of those CC&Rs. As a requirement of the Vacation Rental Operations Permit, the permittee shall be required to mail to neighboring properties within a 300-foot radius, the homeowners' association-an informational letter which shall include, without limitation: existence and location of the Vacation Rental; name and contact information for the 24/7 Property Manager; and procedures and contact information for the County. This would be in addition to the public noticing requirements for discretionary permits as outlined in Title 20 and Title 21.

If the Board finds this approach is not sufficient, then the ordinances could require the Owner or Operator to provide proof of approval from the homeowner's association as part of the application process, similar to County's existing inland regulations for short term rentals. A limitation to this approach is the possibility that a homeowner's association may be nonresponsive to the Operator's request.

Visitor Serving Unit Caps

The Board did not support counting Vacation Rentals against any existing Visitor Serving/Facility caps in different land use/area plans as provided for in the November draft ordinances. The Board instead directed staff to develop a separate vacation rental counting mechanism and consider establishing Vacation Rental caps. The draft ordinances have been updated to remove the provision counting Vacation Rentals against existing caps. See below "Vacation Rental Caps".

Unique Neighborhoods

The draft Vacation Rental ordinances presented to the Board at its November meeting included a provision recognizing the vacation rentals which had received permits pursuant to Section 21.64.280 (Administrative Permits for Transient Use of Residential Property for Remuneration) would not be subject to the new regulations ; however, no provision was included in those earlier ordinances for other circumstances or unique neighborhoods where the existing development was established with the intent of managed short term rentals (e.g., Monterey Dunes Colony). The Board directed that the ordinances be updated to address unique neighborhoods. Language has been added to recognize these existing permitted uses, which would not be subject to the regulations in the proposed draft ordinances. The existing permitted use must operate according to the regulations and conditions approved through the original permit.

If the Board desires, as an alternative, the ordinances could provide for an amortization period for uses approved under prior regulations, after which the current permitted uses would be required to cease and the new regulations would go into effect for properties and unique neighborhoods. However, in that case, staff would determine if those uses would be consistent with applicable Area Plans and Land Use Plans and regulations.

Vacation Rental Caps

Based on Board direction, staff further explored the potential options for establishing numerical limits or "caps" on Vacation Rentals.

Overall Cap Application

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The first option staff considered was whether limiting Vacation Rentals through a cap on the number of permits issued would be necessary. Since the LVRs are restricted to no more than three rentals per year for no more than 14 days each, staff recommends that LVRs not be subject to a Vacation Rental cap.

As directed by the Board, all other Vacation Rentals operating beyond the three times per year threshold should be considered as a commercial use (CVR), warranting a discretionary entitlement process that incorporates a term limit. The required permit path, coupled with a proactive code compliance program (see below “Vacation Rental Program Staffing and Resources”), could potentially serve as limiting factors depending on the degree of difficulty and efficacy of code enforcement efforts. Staff also considered vacation rental cap programs in neighboring jurisdictions and met with staff from Santa Cruz County and San Luis Obispo County. Based on staff’s research and these discussions, Vacation Rental caps are complex and difficult to maintain.

Based on these combined factors, staff does not recommend establishing Vacation Rental caps for either LVRs or CVRs.

Where to Establish Caps

Countywide – Another factor staff considered was the amount of Vacation Rentals operating within the unincorporated areas of the County compared to the residential housing stock available. Data obtained from the Monterey County Assessor’s Office indicates that there are approximately 60,000 residential units (including single family dwellings, multifamily dwellings, condos, and townhomes) in the unincorporated area of the County. Host Compliance, the County’s third-party vendor, identifies that there are currently 610 unpermitted Vacation Rentals operating in the unincorporated area of the County, which is approximately 1% of the total residential units.

Land Use/Area Plan Areas – Monterey County Assessor’s and Host Compliance data was further refined to determine the percentage of residential units currently operating as unpermitted Vacation Rentals in each of the land use and respective area plan areas. The Vacation Rental rate ranges from 0.03% to 6.19%. This data helps to quantify the differential impacts Vacation Rentals have in certain areas of unincorporated Monterey County. The areas with the highest percentage of housing being advertised as vacation rentals include the Carmel Land Use Plan, Carmel Valley Master Plan, Del Monte Forest Land Use Plan and Big Sur Coast Land Use Plan areas and the Greater Monterey Peninsula Area Plan area.

Proportion of Residential Units Being Advertised as Vacation Rentals

Land Use Plan Area	Residential Units	Advertising Vacation Rentals	% of Vacation Rentals
Carmel Area LUP	4,097	176	4.30%
Carmel Valley MP	3,402	138	4.06%
Del Monte Forest LUP	1,002	62	6.19%

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Greater Monterey Peninsula AP (Del Monte Forest portion)	1,000	51	5.1%
Big Sur Coast LUP	306	20	6.54%

Since the draft ordinances prohibit CRVs in the Big Sur Coast LUP and the Low-Density Residential zoning district in the Carmel Area LUP (approximate area of Carmel Highlands), the concentrated areas above would be greatly reduced once operators are phased out. As such, the second option the Board may consider is to *only* establish caps in the remaining high concentration areas of Carmel Valley Master Plan, the Del Monte Forest LUP (coastal), and the Del Monte Forest portion (inland) of the Greater Monterey Peninsula Area Plan. This is similar to regulations adopted by our neighboring San Luis Obispo and Santa Cruz counties.

What Limit is Appropriate

If the Board directs staff to develop a limit or cap for Vacation Rentals, then direction is needed regarding the appropriate approach to establishing that limit. As a starting point, staff suggests using the data above to establish a maximum proportion of housing that can be permitted as Vacation Rental, either countywide or by areas. The percentages could be further reduced to be more protective of housing if desired. For example, if 4% is too high, then the maximum percentage could be reduced by half to 2%. If that is too high, it could be further reduced to the County overall of 1%. Once the appropriate vacation rental percentage is determined, staff recommends converting that percentage to a unit count for purposes of the regulations and establishing the cap. These caps could be monitored and evaluated on a 5-year or other appropriate interval.

Cap Per Planning Area Method

If it is the desire of the Board, limits could be established for each planning area, or for those planning areas which have a high concentration of Vacation Rentals. In either case, using the identified percentage to determine the vacation rental unit cap would be appropriate.

Caps Per Block Method

A third option, to establish caps by census block or tract, would address smaller areas of known high concentration of current Vacation Rental operations. For example, other counties using this method have applied them to residential areas experiencing heavy visitor traffic. Consistent and detailed tracking and enforcement would be needed to successfully employ this method. Looking at the Host Compliance data, there are no areas where there is a high census block concentration and very few areas where there is a high census tract concentration. Therefore, staff would not recommend using this method.

Other Issues

As staff prepared the proposed draft ordinances, other potential issues were identified for the Board to consider:

Regulations for Limited Vacation Rentals (LVRs)

As described above, LVRs are proposed to be processed ministerially and are only subject to a Vacation Rental Operation Permit (VROP) and Business License. To maintain consistent

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standards for operating the vacation rentals that are protective of the neighborhood as well as the rental guests, the Vacation Rental Operation Permit regulations are the same for LVRs and CVRs. While staff understood the Board’s intent was to have a simpler permit process for LVRs (ministerial VROP/Business License only) than CVRs (discretionary permit and ministerial VROP/Business License), it was unclear if the Board also intended for the VROP regulations to be reduced for LVRs.

Multi-family & Duplex Dwellings:

At the November Board meeting, a concern was raised by one Board member regarding the use of multi-family and duplex dwellings as vacation rentals, as allowed in the draft ordinances. Staff was unclear if it was the desire of the Board to restrict vacation rentals only to single-family dwellings. The current draft of the proposed ordinances allows vacation rentals in multi-family and duplex dwellings as long as they have only one vacation rental per legal lot of record, as is the rule for all dwelling types, with the exception of individually owned duplex or multi-family dwellings such as condominiums and townhomes. In these types of developments, one Limited Vacation Rental shall be allowed per individually owned residential unit.

Vacation Rentals per Legal Lot:

The language in the current ordinances would allow an owner/operator to apply for one LVR *and* CVR per legal lot of record. Staff is seeking direction from the Board on whether this current language suffices or if the intention is to allow only one vacation rental, either LVR *or* CVR per legal lot of record.

Vacation Rental Enforcement Program

The Board also directed staff to develop and present for its consideration a proposed Vacation Rental Enforcement Program (Program) that identifies potential revenue sources to fund the Program (e.g., TOT, permit fees, enforcement penalties). A proactive, responsive code compliance team will need to be able to respond to complaints across the County – from Arroyo Seco to North County to Big Sur – during peak vacation rental times (weekends and evenings). Timing to implement this Program is intended to be informed by the lead time necessary to have the technology, vendor and staff resources available when the ordinances become effective and to allow timely processing for unpermitted operations to apply for a permit or cease operation.

Currently, there are 610 advertised Vacation Rentals in unincorporated Monterey County, 46 of which are in areas/zones where CVRs are not allowed per the draft ordinances (Big Sur Coast Land Use Plan, Low Density Residential zones in the Carmel Area Land Use Plan).

Code Compliance – The rollout of the new regulations and accompanying code compliance program is recommended to take place in two operational phases: Phase 1 – Initial three-year program establishment; Phase 2 – On-going monitoring and enforcement. The Vacation Rental regulations for the Inland Area of the County will take effect on the thirty-first day following Board adoption. The Coastal Zone regulations are anticipated to become operable approximately one year later because the Title 20 ordinance requires California Coastal Commission certification. Staff anticipates a large influx of vacation rental applications to be submitted to operate in the Inland Area during the first year, and a second, larger influx of applications in the Coastal Zone in the second year.

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During Phase 1, code compliance would initially focus efforts on Vacation Rental outreach, education, health/life/safety investigations, and responding proactively to nuisance complaints. Once the ordinance timelines require existing, unpermitted Vacation Rental operations to make an application, the code compliance team will shift away from education/outreach into proactive enforcement of vacation rentals that continue to operate but fail to apply for or obtain the proper permits. Voluntary compliance is preferred; however, for operations that do not voluntarily cease the unpermitted activity, code compliance will take progressive enforcement actions to achieve compliance.

Once voluntary compliance and enforcement actions have progressed and a significant proportion of unpermitted operations are shut down, anticipated by the end of the third year, the enforcement will enter Phase 2 – On-going monitoring and enforcement. Code compliance will continue its progressive enforcement actions for remaining unpermitted operations as well as permitting operations that cause nuisance or are otherwise operating outside their permit.

Code compliance program options include, but are not limited to:

Option 1 – In-House Staffing Model with Third-Party On-Line Monitoring and Hotline

This option allows the County to be staffed when the regulations are operative. Should compliance with the new regulations be extremely high, the County might need to reduce the team size after the initial few years, depending on the mechanism for funding the team.

- Code Compliance Inspectors (2 Full-Time Equivalents or FTEs) – Provides optimal coverage during evening and weekends, and safely and effectively respond to complaints. Implements progressive enforcement actions for non-compliant rentals (e.g., stipulated agreements, administrative law hearing).
- Office Assistant (1 FTE) – Provides administrative support to code compliance.
- Third Party Compliance Services – Online monitoring of Vacation Rental listings and complaint hotline services. On-Call or as needed services include collecting and consolidating admissible evidence of non-compliance, communicating with non-compliant properties, and initiating audits of operators who exceed rental frequency and other limits in the regulations.
- Environmental Health Specialist, Senior – (2 Full-Time Equivalent or FTE) – Provides optimal coverage for evaluating and assessing Environmental Health requirements including but not limited to water system requirements, wastewater discharge requirements, adherence to MCC 18.15, safely and effectively responding to health related and substandard housing complaints including but not limited to sewage overflows, trash and debris nuisances, pests infestations and mold. Implements progressive enforcement actions for non-compliant rentals (e.g., stipulated agreements, administrative law hearing).
- A vigorous code enforcement program would require participation by County Counsel.
- Technology Start-Up and Outreach Materials – One-time start-up costs associated with setting up Accela workflow and reporting, user-friendly website, and outreach materials and workshops will be needed to successfully launch the vacation rental program. This will likely be accomplished utilizing a combination of in-house and contract services.

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Option 2 – Minimal Staffing Model with Third-Party Inspection and Compliance Services

This option allows the County to minimize initial hiring of County employees by augmenting code compliance with an outside vendor and providing shared office support. This option is optimal if compliance with the new regulations is relatively high, and additional condition compliance efforts begin to slow significantly after the first few years.

- Code Compliance Inspector (1 FTE) – Provides coverage during evening and weekends and may be limited to respond to complaints in different parts of the County. Implements progressive enforcement actions for non-compliant rentals (e.g., stipulated agreements, administrative law hearing).
- Office Assistant (1 FTE shared) – Provides administrative support to code compliance and the permit review/condition compliance teams, includes keeping website up to date with appropriate information regarding permitted operations.
- Third Party Compliance Services – Online monitoring of Vacation Rental listings, complaint hotline services, collecting and consolidating admissible evidence of non-compliance, communicating with non-compliant properties, and initiating audits of operators who exceed rental frequency and other limits in the regulations.
- Third Party Inspection Services – Augment staff coverage during evening and weekends for complaints across the County.
- Environmental Health Specialist, Senior – (1 Full-Time Equivalent or FTE) – Provides coverage for evaluating and assessing Environmental Health requirements including but not limited to water system requirements, wastewater discharge requirements, adherence to MCC 18.15, safely and effectively responding to health related and substandard housing complaints including but not limited to sewage overflows, trash and debris nuisances, pests infestations and mold. Implements progressive enforcement actions for non-compliant rentals (e.g., stipulated agreements, administrative law hearing).
- Participation by County Counsel would likely be the same in this option as in Option 1.
- Technology Start-Up and Outreach Materials – One-time start-up costs associated with setting up Accela workflow and reporting, user-friendly website, and outreach materials and workshops will be needed to successfully launch the Vacation Rental program. This will likely be accomplished utilizing a combination of in-house and contract services.

Permit Review and Condition Compliance – An effective program that creates a pathway for operations to be permitted and is proactive and responsive to address unpermitted operations, as well as those permitted Vacation Rentals operating outside the bounds of their permits, involves collaboration between code compliance team and the County departments’ permit review and condition compliance teams. It is paramount that the County efficiently process what could be hundreds of Vacation Rental permit applications, as well as have requisite staffing to effectively monitor condition compliance of those operations.

As described above, the nature of Program implementation will evolve over time once the regulations are effective, and it is unknown at this time what the volume of permit applications will be. Permit review and condition compliance program options include, but are not limited to:

Option 1 – In-House Staffing Model with Third-Party On-Line Monitoring and Hotline

This option allows the County to be staffed when the regulations are operative. Should compliance with the new regulations be extremely high, the County runs the risk of possibly

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needing to reduce the team size after the initial few years.

- Associate Planners (2 FTEs) – Initially both planners would be assigned to vacation rental permit review, and over time one of the positions would shift to condition compliance. After the initial processing of discretionary permits (which are proposed to have 15-year terms), permit activities shift to tracking, monitoring, and processing annual Vacation Rental Operator Permits. Condition compliance of land use and VROP permitted operations will be on-going, and the condition compliance team will also support compliance monitoring of Accessory Dwelling Units (ADUs), Junior ADUs (JADUs), and other deed restricted housing to ensure it is not being utilized for vacation rentals.
- Office Assistant (1 FTE) – Provides administrative support to permit review and condition compliance team.
- Third Party Permit Review Services – On-call services available to support permit review during surges or staff absences, as needed.
- Third Party Compliance Services – Online monitoring of Vacation Rental listings and complaint hotline services. On-Call or as needed services including collecting and consolidating admissible evidence of non-compliance, communicating with non-compliant properties, and initiating audits of operators who exceed rental frequency and other limits in the regulations. These are the same services, not additive, as described in code compliance Option 1.
- Environmental Health Specialist, Senior – (1 Full-Time Equivalent or FTE) - Provides optimal coverage for evaluating and assessing Environmental Health requirements including but not limited to solid waste service, water system requirements, wastewater discharge requirements, adherence to MCC 18.15.
- County Counsel would provide advice under either option.
- Technology Start-Up and Outreach Materials – One-time start-up costs associated with setting up Accela workflow and reporting, user-friendly website, and outreach materials and workshops will be needed to successfully launch the vacation rental program. This will likely be accomplished utilizing and combination of in-house and contract services. These are the same services, not additive, as described in code compliance Option 1.

Option 2 – Minimal Staffing Model with Third-Party Permit and Condition Compliance Services

This option allows the County to minimize initial hiring of County employees by augmenting land use services with an outside vendor and providing shared office support. This option is optimal if compliance with the new regulations is relatively high, and additional condition compliance efforts begin to slow significantly after the first few years.

- Associate Planner (1 FTE) – Initially the planner would be assigned to permit review, and over time the position could support condition compliance of vacation rental operations, ADU/JADU/deed restricted units, as time allows. After the initial processing of discretionary permits (which are proposed to have 15-year terms), permit activities shift to tracking, monitoring, and processing annual Vacation Rental Operator Permits.
- Office Assistant (1 FTE shared) – Provides administrative support to code compliance and the permit review/condition compliance teams, includes keeping website up to date with appropriate information regarding permitted operations.

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- Third Party Permit Review Services (1 FTE/2080 hours+) – Contract services available to support permit review. On-call services available during surges or staff absences, as needed.
- Third Party Compliance Services - Online monitoring of vacation rental listings, complaint hotline services, collecting and consolidating admissible evidence of non-compliance, communicating with non-compliant properties, and initiating audits of operators who exceed rental frequency and other limits in the regulations. These are the same services, not additive, as described in code compliance Option 2.
- Environmental Health Specialist, Senior – (1 Full-Time Equivalent or FTE) - Provides optimal coverage for evaluating and assessing Environmental Health requirements including but not limited to solid waste service, water system requirements, wastewater discharge requirements, adherence to MCC 18.15
- County Counsel would provide advice under either option.
- Technology Start-Up and Outreach Materials – One-time start-up costs associated with setting up Accela workflow and reporting, user-friendly website, and outreach materials and workshops will be needed to successfully launch the Vacation Rental program. This will likely be accomplished utilizing a combination of in-house and contract services. These are the same services, not additive, as described in code compliance Option 2.

Treasurer-Tax Collector – Proposed amendments to MCC Section 7.02.060 include requiring issuance of an annual business license to all operators of Hotels, as defined in MCC, Chapter 5.40.020 and all Limited Vacation Rentals and, Commercial Vacation Rentals. The Treasurer-Tax Collector anticipates the need for resources necessary to implement the proposed changes but requires time to identify those resources.

FINANCES:

Staff time to develop the draft ordinances is funded as part of the Fiscal Year 2020-21 Adopted Budget for HCD (formerly Resource Management Agency Planning), General Fund, Appropriation Units RMA013 and RMA110. Based on Board policy direction for the draft ordinances, staff will determine the level of environmental analysis and/or document needed. If additional studies, a Mitigated Negative Declaration, or an Environmental Impact Report (EIR) are needed, staff plans to procure a third-party contractor to prepare the studies/documents. An EIR would be the most expensive, and staff estimates the cost could be up to \$300,000. Staff will return to the Board via the Budget Committee to request funding for FY2021-22, if needed, for environmental work.

Program Costs - The estimated funding need for the options presented above include:

Option 1 – In-House Staffing Model – Permit Processing, Code and Condition Compliance

- The estimated funding need for Option 1 is \$1,062,000 plus per year, detailed below: Code Compliance Inspectors (2 FTEs) – \$280,000 per year (\$140,000 ea/yr)
- Associate Planners (2 FTEs) – \$250,000 per year (\$125,000 ea/yr)
- Office Assistants (2 FTEs) – \$180,000 (\$90,000 ea/yr)
- Third Party Compliance Services
 - Online monitoring and hotline – \$52,000 per year
 - On-Call services – TBD

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- Third Party Permit Review Services (On-Call) – TBD
- Environmental Health Specialist, Senior (2 FTEs) - \$300,000 per year (\$150,000 ea/yr)
- County Counsel and Treasurer-Tax Collector – TBD
- Technology Start-Up and Outreach Materials - TBD

Option 2 – Minimal Staffing Model – Permit Processing, Code and Condition Compliance

The estimated funding need for Option 2 is \$1,285,000 plus per year, detailed below:

- Code Compliance Inspector (1 FTE) – \$140,000 per year
- Associate Planner (1 FTE) – \$125,000 per year
- Office Assistant (1 FTE) – \$90,000 per year
- Third Party Compliance Services
 - Online monitoring and hotline – \$52,000 per year
 - Compliance services - TBD
- Third Party Inspection Services (2080 hours) – \$364,000 per year (\$175 per hour)
- Third Party Permit Review Services (2080 hours plus) – \$364,000 per year plus on-call TBD (\$175 per hour)
- Environmental Health Specialist, Senior (1 FTE) - \$150,000 per year
- County Counsel and Treasurer-Tax Collector - TBD
- Technology Start-Up and Outreach Materials - TBD

Once the Vacation Rental ordinances are in effect and the timeline for submitting a permit application for unpermitted operations has passed (6 months after regulations become operative), staff can better evaluate permit and compliance needs.

Program Revenue (TOT, Permit Fees, Enforcement Penalties/Fees) – The Board supported that the Vacation Rental Program be funded utilizing a combination of revenue sources including TOT, permit fees, and enforcement penalties and fees to fund its activities. Actual revenue generated by the Vacation Rental Program will depend on number of permit applications submitted and approved, and the degree of compliance over time (e.g., ceasing unpermitted operations, adhering to permit standards and conditions).

As discussed above, of the 610 advertising vacation rentals, approximately 564 *may* be eligible to operate as a CVR. It is unlikely that all these operations would apply for a permit *and* be approved to operate. There may also be new operations that have waited patiently for the regulations to be approved so they could apply or may wish to join the market. Staff anticipates that there will be a net decrease in the number of vacation rentals from what is advertising currently once the new regulations take effect and County begins proactive enforcement. The level of decrease is dependent upon several factors including, but not limited to, final regulations, permit fees, and vacation rental caps.

For purposes of this report, staff considers the following scenarios to estimate potential permit fee revenue. The land use and VRO permit fees as well as Business License fees will generate new revenue. The TOT revenue is existing revenue, and no new (additional) TOT is anticipated with the adoption and implementation of the vacation rental ordinances. Currently approximately 75% of the advertising vacation rental operations are registered and have paid an average of \$2.2 million in annual TOT over the past three years. The following scenarios are used for illustrative

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purposes to help guide the Board’s policy discussion.

Scenario 1 (Cost Recovery) – This scenario utilizes current permit fees and assumes 200 (75 coastal, 125 inland) CVRs, 30 LVRs permitted. Based on feedback received throughout the regulation development process, staff anticipates that the number of permits applied/issued will be higher the lower the permit fee. Based on this assumption, Scenario 1 assumes a relatively low number of permitted Vacation Rentals while charging fees consistent with the current adopted Land Use Fee Schedule. Revenue cost estimates include one-time permit fees totaling \$1,512,500 and annual revenue (VRO Permit, Business Licenses, TOT) totaling \$1,382,900 per year.

AREA	LAND USE PERMIT*	VRO PERMIT	BUSINESS LICENSE	TOT
COASTAL	COASTAL DEV. (ONE-TIME)	ANNUAL	ANNUAL	ANNUAL
COST	\$ 11,000	---	\$ 230	---
COUNT	75	---	75	---
REVENUE	\$ 825,000	---	\$ 17,250	---
INLAND	USE (ONE-TIME)			
COST	\$ 5,500	---	\$ 230	---
COUNT	125	---	125	---
REVENUE	\$ 687,500	---	\$ 28,750	---
BOTH				
COST	---	\$ 1,000***	\$ 230	Variable
COUNT	---	230	30	230
REVENUE	---	\$ 230,000	\$ 6,900	\$1,100,000**
TOTAL REVENUE	\$ 1,512,500	\$ 230,000	\$ 52,900	\$ 1,100,000

*For simplicity, staff assumes an influx of one-time land use permits. There would be a large surge of initial permits with periodic additional permits coming in overtime. This pattern would repeat itself in approximately 15 years corresponding to the permit term.

**Estimated reduction in TOT based on using half of the average annual TOT collected for three prior fiscal years (average TOT is \$2,200,000).

***Estimated based on Land Use Fee Schedule Tier 2 as requiring similar processing effort as an administrative design approval.

Scenario 2 (Minimal Fees) – This scenario includes reduced permit fees and assumes 400 (150 coastal, 250 inland) CVRs, 150 LVRs permitted. In Scenario 2, staff reduced permit fees by approximately two-thirds and assumed a corresponding increase in permitted Vacation Rental operations of approximately double. Revenue cost estimates include one-time permit fees totaling \$1,100,000 and annual revenue (VRO Permit, Business Licenses, TOT) totaling \$2,379,000 per year.

	LAND USE PERMIT*	VRO PERMIT	BUSINESS LICENSE	TOT
COASTAL	COASTAL DEV.(ONE-TIME)	ANNUAL	ANNUAL	ANNUAL
COST	\$ 4,000	---	\$ 230	---
COUNT	150	---	150	---
REVENUE	\$ 600,000	---	\$ 34,500	---
INLAND	USE (ONE-TIME)			

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COST	\$ 2,000	---	\$ 230	---
COUNT	250	---	250	---
REVENUE	\$ 500,000	---	57,500	---
BOTH				
COST	---	\$ 350	\$ 230	Variable
COUNT	---	550	150	550
REVENUE	---	\$ 52,500	\$ 34,500	\$2,200,000**
TOTAL REVENUE	\$ 1,100,000	\$ 52,500	\$ 126,500	\$ 2,200,000

**For simplicity, staff assumes an influx of one-time land use permits. There would be a large surge of initial permits with periodic additional permits coming in overtime. This pattern would repeat itself in approximately 15 years corresponding to the permit term.*

***Estimated using the average annual TOT collected for three prior fiscal years (average TOT is \$2,200,000).*

Based on direction received by the Board and upon completing environmental review, staff will prepare final recommendations and options for a proposed implementation and compliance program structure and costs, including a recommendations for permit fees and funding mechanisms, to accompany the final draft ordinances when returning to the Planning Commission and then Board of Supervisors for consideration.