



Legislation Text

File #: 2023-0481, Version: 1

Report to Mayor and City Council

Wednesday, July 05, 2023

Consent

SUBJECT:

CONSIDER TAKING A POSITION OF "OPPOSE UNLESS AMENDED" AND SENDING A CORRESPONDING LETTER REGARDING SENATE BILL 584 THAT WOULD ADD A 15% TRANSIT OCCUPANCY TAX ON SHORT TERM RENTALS THAT WOULD BE COLLECTED BY THE STATE OF CALIFORNIA TO FUND LABORFORCE HOUSING (CITY COUNCIL)

I. SUMMARY

This item transmits a request from the League of California Cities for the City Council to formally take a position of "oppose unless amended" on Senate Bill 584 (Limón). This Bill would impose a 15% tax on the occupancy of short-term rentals ("STRs"). Proceeds from the tax would go back to local governments as grants for the construction, acquisition, and rehabilitation of affordable laborforce housing. The bill defines laborforce housing as public housing projects built with a skilled and trained workforce or prevailing wage rates.

As stated by the League of California Cities, a transient occupancy or STR tax is often the primary source of revenue for cities that rely on tourism and hospitality as economic drivers. In some cases, the tax on STRs can represent over two-thirds of General Fund revenues, which funds fire, police, and other essential services. Imposing a 15% statewide tax on top of existing local rates averaging 10% would both harm critical local revenues and create a prohibitive fiscal burden for tourism and hospitality providers.

As also stated by the League of California Cities, imposing a 15% statewide tax on top of existing local rates would harm critical local revenues and create a fiscal burden for tourists who would like to visit the community and invest in the local economy. Instead of a statewide tax, owners of short-term rentals could pay a fee to help fund affordable housing. This alternative would provide much-needed funding for affordable housing, protect equally essential services, and ensure the revenue is returned to the community.

II. RECOMMENDATION

TAKE a position of OPPOSE UNLESS AMENDED on Senate Bill 584 and DIRECT staff to transmit a corresponding letter.

III. ALTERNATIVES

TAKE another action the City Council deems appropriate and that is consistent with applicable laws.

IV. BACKGROUND

An additional detailed summary and analysis is included as Exhibit 2.

Specifically, this bill would create a new program at the California Department of Housing and Community Development (“HCD”), which would finance laborforce housing units and provide grants to cities, counties, local housing authorities, and eligible non-profits. Funds can be used for the construction of new housing and acquisition and rehabilitation of existing housing. Laborforce housing must be affordable to a mix of incomes at ranges from 120% area median income and below, and shall be permanently deed restricted. All tenants in laborforce housing projects shall enjoy specified tenant protections and all workers on projects funded by HCD for laborforce housing must be subject to a project labor agreement or meet skilled and trained workforce requirements.

The program would be funded by a new, 15% state short term rental (“STR”) occupancy tax imposed on STRs rented after January 1, 2025. The tax would be imposed on the total amount for which the renter retains to occupy the right to occupy an STR. Facilitators or operators who make less than \$100,000 from facilitating STRs during the prior calendar year are not required to collect this tax. The facilitator or operators subject to this new tax is responsible for collecting and remitting it.

V. FISCAL IMPACT

There will be no direct fiscal impact because this item pertains only to the letters.

VI. EXHIBITS

1. Letters to “Oppose Unless Amended” to Senate Bill 584 (pgs. 3 - 6)
2. Bill Analysis (pgs. 7 - 14)

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