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LCP-3-STC-17-0073-2-PART B (SHORT TERM RENTALS)

APRIL 11, 2018 HEARING

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ORDINANCE NO. 2017-18

AN ORDINANCE OF THE CITY OF SANTA CRUZ
AMENDING CHAPTER 24.12 OF THE CITY OF SANTA CRUZ MUNICIPAL CODE AND
THE LOCAL COASTAL PROGRAM BY ADDING PART 18: RESIDENTIAL SHORT-TERM
RENTALS

BE IT ORDAINED by the City of Santa Cruz as follows:

Section 1. Section 24.12 Part 18: Residential Short-Term Rentals is hereby added to read as follows:

Part 18: RESIDENTIAL SHORT-TERM RENTALS

24.12.1700 PURPOSE.

The purpose of these regulations is to provide a set of standards governing the renting or leasing of residential property on a short-term basis in the City of Santa Cruz. The regulations contained herein will help ensure that short-term rental activities do not become a nuisance or threaten the public health, safety, or welfare of neighboring properties while helping to maintain long-term rental housing stock in the city.

Residential short-term rentals also serve to support a variety of visitor-serving options for visitors to the city. These regulations recognize that the City of Santa Cruz has always been a desirable vacation and tourist destination, with second and vacation homes being a familiar part of the community fabric, including those that have long history of being registered with the city and paying transient occupancy tax.

Short-Term Rental Permits provide an added financial benefit to owners of residential properties and help individuals meet their mortgage and family living expenses. Insofar as the number of Short-Term Rental Permits is limited, the goal of the short-term rental program is to issue Short-Term Rental Permits to the widest population base and not grant a special privilege to individuals who own multiple properties.

24.12.1705 DEFINITIONS.

As used in this chapter, the following definitions apply:

1. “Booking Service”. Any reservation and/or payment service provided by a person or entity that facilitates a short-term rental transaction between an owner and a prospective transient user, and for which the person or entity collects or receives, directly or indirectly through an agent or intermediary, a fee in connection with the reservation and/or payment services provided for the short-term rental transaction.
2. “Dwelling” or “Dwelling Unit”. A building or portion of a building including one or more rooms which is/are designed for residential use by a single family, with living facilities including provisions for sleeping, eating, food preparation, and sanitation. A dwelling unit shall have only one domestic food preparation facility and shall have interior access between all habitable spaces.
3. “Existing Short-Term Rental”. A short-term rental property for which the owner has been issued a transient occupancy registration certificate under Chapter 3.28 prior to

- September 26, 2017, and is in compliance with the transient occupancy tax provisions of Chapter 3.28, including payment of all taxes, penalties, and interest due for the short-term rental property.
4. “Home Exchange”. An arrangement under which an owner of a dwelling unit of a residential property allows the use of the dwelling to a third party in equal exchange for the owner’s use of another dwelling in another location, and for which neither party receives additional consideration of any kind in money, goods, labor or otherwise.
 5. “Hosted Short-Term Rental”. A dwelling unit where the owner with the majority interest in the residential property, or an owner holding an equal share interest if no other owner owns a greater interest, occupies a dwelling unit as his or her principal residence and offers the dwelling, a habitable portion thereof, or any other single unit on the same Assessor’s Parcel Number, for transient occupancy by others.
 6. “Hosting Platform”. A person or entity that participates in the short-term rental business by providing and collecting or receiving a fee for Booking Services through which an owner may offer a short-term rental unit for transient occupancy. Hosting Platforms usually, though not necessarily, provide Booking Services through an on line platform that allows an owner to advertise the short-term rental unit through a website provided by the Hosting Platform and the Hosting Platform conducts a transaction by which prospective transient users arrange for transient occupancy and payment, whether the transient pays rent directly to the owner or to the Hosting Platform.
 7. “Non-Hosted Short-Term Rental”. A dwelling unit that is offered for transient occupancy where the owner does not occupy the dwelling unit that is offered for transient occupancy as his or her principal residence.
 8. “Owner”. Any person who holds legal title and a majority interest in the residential property.
 9. “Principal Residence”. The dwelling a person physically occupies and lives in on a day-to-day basis. A person may have only one principal residence at a time. If a person alternates between two or more properties, the principal residence will be the one lived in the majority of days during the year. In addition, a principal residence is as documented by at least two of the following: the address listed on the homeowner’s federal and state tax returns, bank account, car registration, driver’s license, voter registration and employment records; utility bill; and residence address for purposes of a homeowner’s tax exemption.
 10. “Residential Property”. A parcel of real property with a separate Assessor’s Parcel Number that contains one or more dwelling units.
 11. “Short-Term Rental Property or Short-Term Rental Unit”. A residential property that contains a dwelling unit or habitable portion thereof that is offered for hire for transient occupancy for periods of thirty days or less that would require the owner to comply with the requirements of Chapter 3.28, Transient Occupancy Tax.
 12. “Transient Occupancy”. The use or possession of, or the right to the use or possession of, any room or rooms in a dwelling unit on a residential property for lodging or sleeping purposes for a period of thirty consecutive calendar days or less, counting portions of calendar days as full days.

24.12.1710 APPLICABILITY.

This chapter shall apply to short-term rental property as defined herein. The regulations set forth in this chapter are independent from and do not apply to other special uses that may be regulated by

other zoning standards, such as hotels, motels, bed and breakfast inns, lodging houses, and boarding houses. In addition, these regulations do not apply to home exchanges as defined herein. Legally restricted affordable housing units shall not be used as short-term rentals.

24.12.1715 PERMIT REQUIREMENTS TO OPERATE SHORT-TERM RENTAL.

1. No person shall offer any dwelling on residential property for transient occupancy of 30 days or less as a short-term rental property unless a Permit to Operate a Short-Term Rental (“Short-Term Rental Permit”) is obtained pursuant to this chapter.
2. An owner of a short-term rental property may apply for a Short-Term Rental Permit from the Director of the Department of Planning and Community Development, as specified in this chapter.
3. All Short-Term Rental Permits are revocable and non-transferable.
4. Application for a Short-Term Rental Permit shall be in a form prescribed by the Department of Planning and Community Development with all information determined by the Director of the Department of Planning and Community Development to be necessary to evaluate the eligibility of the applicant, consistent with this chapter.
5. The Department of Planning and Community Development shall in its sole discretion consider the following factors when evaluating applications for a Short-Term Rental Permit:
 - a. The timeliness and completeness of an application.
 - b. Evidence of compliance with the provisions of Transient Occupancy Tax, Chapter 3.28, including evidence of a transient occupancy registration certificate, payment of all taxes, penalties, and interest due for any short-term rentals prior to the date of application.
 - c. Submission of plans relating to the short-term rental property, which do not need to be drawn by a professional, drawn to scale and including the following:
 - (1) Plot plan showing location of all existing buildings and location and dimensions of on-site parking.
 - (2) Floor plan showing all rooms with each room labeled as to room type.
 - (3) Description of rooms or dwelling unit to be used for the short-term rental.
 - (4) Photograph of the front of the residential unit.
 - d. Whether the applicant has ever violated this chapter, or the terms of a Short-Term Rental Permit or had the same or similar type of permit suspended or revoked.
 - e. Whether the applicant and/or applicant’s agents associated with applicant’s short-term rental have ever made a false, misleading, or fraudulent statement:
 - (1) in the application for a Short-Term Rental Permit,
 - (2) in any report or record required to be filed with the city, or
 - (3) in response to inquiries by the city.
 - f. Whether the issuance of a permit to the applicant is in the interest of the public health, safety and welfare.
 - g. Payment of a processing fee established by resolution of the City Council for the application in accordance with the provisions of Section 14.12.1725.
 - h. Any other additional information necessary to demonstrate applicant’s eligibility and compliance with this chapter.

24.12.1720 CONDITIONS OF APPROVAL.

Short-Term Rental Permits are issued at the sole discretion of the Director of Planning and Community Development, and are subject to the following conditions:

1. The Short-Term Rental Permit is issued to one owner of the residential property which is the principal residence of the owner.
2. The owner must demonstrate full conformance with the Santa Cruz Municipal Code, including, but not limited to:
 - a. Chapter 3.28, including filing timely and accurate transient occupancy tax returns and remitting any tax and any penalties and interest due as required; and
 - b. Chapter 24, Part 18, Residential Short-Term Rentals.
3. The short-term rental must demonstrate annual short-term rental activity, as evidenced by accurate reporting and full remittance of transient occupancy taxes owed to the city.
4. The Short-Term Rental Permit shall automatically lapse if the subject unit is not used as a short-term rental for two full years.
5. The owner shall ensure that all advertising, including, but not limited to, in any written publication or on any on-line website, or any other medium that lists or offers the availability or existence of the short-term rental property, shall include the city-issued Short-Term Rental Permit number and transient occupancy registration certificate number.
6. All short-term rental properties shall be registered and comply with the city's residential rental inspection program, and shall not be exempt from the program. Short-term rental properties shall complete any corrections found during any inspections within a reasonable time period, as determined by the Director of Planning and Community Development.
7. Any eligible short-term rental property must not be subject to any outstanding building, electrical, plumbing, fire, health, housing, police, or planning code violations or enforcement actions, including any notices of violation, notices to cure, orders of abatement, cease and desist orders, or correction notices. If such a violation occurs while a dwelling unit is subject to a Short-Term Rental Permit, the city shall suspend and/or revoke the short-term rental property's registration and registration number if any and all violations have not been cured.
8. An owner of a hosted short-term rental shall submit proof of principal residency to the Department of Planning and Community Development as part of the rental inspection program or at any time upon request by the Department of Planning and Community Development.
9. A prior revocation of a Short-Term Rental Permit will disqualify the applicant in being able to apply for a subsequent Short-Term Rental Permit for any residential property for two years from the date of the prior revocation.

24.12.1725. REQUIREMENTS FOR HOSTING PLATFORMS.

1. All Hosting Platforms shall provide the following information in a notice to any user listing a short-term rental property located within the city through the Hosting Platform's service. The notice shall be provided to the user listing the short-term rental property after the effective date of this chapter and shall include the following

- information: the requirements of this chapter regulating short-term rental property and the transient occupancy tax obligations to the city.
2. A Hosting Platform, if required to collect and remit all required transient occupancy taxes, shall not be relieved of liability related to an owner's failure to comply with the requirements of Chapter 3.28, Transient Occupancy Tax. A Hosting Platform shall then be required to maintain a record demonstrating that the taxes have been remitted to the city.
 3. A Hosting Platform may provide, and collect a fee for, Booking Services in connection with short-term rentals for short-term rental property located in the city only when the Hosting Platform exercises reasonable care to confirm that those short-term rental units are lawfully permitted at the time the short-term rental property is rented for short-term rental. Whenever a Hosting Platform complies with administrative guidelines issued by the Department of Planning and Community Development to confirm that the short-term rental property is lawfully permitted, the Hosting Platform shall be deemed to have exercised reasonable care for the purpose of this subsection.
 4. For not less than four years following the end of the calendar year in which the short-term rental transaction occurred, the Hosting Platform shall maintain and be able, in response to a lawful request, to provide to the city for each short-term rental transaction for which a Hosting Platform has provided a Booking Service, the following, including, but not limited to:
 - a. The name of the owner who offered a short-term rental unit,
 - b. The address of the short-term rental unit,
 - c. The dates for which the tourist or transient user procured use of the short-term rental unit using the Booking Service provided by the Hosting Platform,
 - d. The permit number for the short-term rental unit.

24.12.1730 PERMIT FEES.

The Department of Planning and Community Development shall assess fees for a Short-Term Rental Permit, as set by the City Council. Fees set forth in this section may be adjusted each year by the City Council, reflecting the costs of administering the Short-Term Rental Permit, and enforcing the requirements of this chapter.

24.12.1735 NO PROPERTY RIGHT.

The issuance of a Short-Term Rental Permit or any renewal thereof does not give the permittee any vested property rights, and is not a covenant that runs with the land.

24.12.1740 NON-TRANSFERABILITY OF SHORT-TERM RENTAL PERMIT.

The Short-Term Rental Permit is non-transferable, so that if any interest or title in the short-term rental property identified in the permit is transferred or assigned to another person or business entity in any manner, the Short-Term Rental Permit shall be deemed revoked, expired and void, and not renewable as of the date of the property transfer. Any new transferee, assignee, or successor owner of the Short-Term Rental Permit shall have no right to use the residential property for transient occupancy. The permittee shall notify the Department of Planning and Community Development in writing no later than 30 days prior to any changes in ownership that may affect the validity of the permit. Failure to provide notice to the city has no effect on the city's right to enforce this provision or this chapter.

24.12.1745 EXCEPTION TO NON-TRANSFERABILITY OF SHORT-TERM RENTAL PERMIT.

The only exception to non-transferability of the Short-Term Rental Permit as set forth in Section 24.12.1740 is when a property transfer qualifies as an exemption from property tax reassessment pursuant to the California Revenue and Taxation Code Section 60 et seq., as determined by the Santa Cruz County Assessor. The applicant shall provide verification of the exemption to the Department of Planning and Community Development in order to prove eligibility for a Short-Term Rental Permit, and avoid invalidation of the permit.

24.12.1750 MAXIMUM SHORT-TERM RENTAL PERMITS, ELIGIBILITY AND PRIORITIES.

1. Existing Short-Term Rentals – Hosted and Non-Hosted.
 - a. Commencing from the effective date of this chapter, an owner of a hosted or non-hosted short-term rental, which meets the definition of an existing short-term rental, as defined in Section 24.12.1705, will be eligible to apply for a Short-Term Rental Permit.
 - b. An existing short-term rental is subject to all applicable conditions specified in this chapter and shall be considered a non-conforming (“grandfathered”) activity.
2. Existing Short-Term Rental - Ownership Limitation
An owner of more than two existing short-term rental is subject to ownership limitations specified in Section 24.12.1780.
3. New Non-Hosted Short-Term Rentals – Not Permitted. Other than the existing non-hosted short-term rental permits allowed in 1, above, no new non-hosted short-term rentals shall be allowed.
4. New Hosted Short-Term Rentals.
Commencing from the effective date of this chapter, the city shall allow up to a maximum of 250 hosted short-term rentals, which may be comprised of existing hosted short-term rental property and any new hosted short-term rental property. The City Council may, by resolution, modify the maximum number of short-term rentals allowed under this section.
5. Application and Priority.
 - a. Owners of existing short-term rentals, hosted and non-hosted, shall submit all application requirements within 90 (ninety) days following the effective date of this chapter.
 - b. After registration of the existing short-term rental properties, hosted and non-hosted, new hosted Short-Term Rental Permit applications will be considered on a first-come-first-served basis to issue Short-Term Rental Permits for a maximum of 250 hosted short-term rentals. When the maximum number of Short-Term Rental Permits has been issued, applications will be placed in a queue for consideration as permits become available.
6. Retroactive Payment of Transient Occupancy Tax.
In addition to the permit requirements in Section 24.12.1715, prior to consideration for a Short-Term Rental Permit related to any existing or new short-term rental unit, the property owner shall comply with the following requirements:
 - a. Proof of retroactive payment of the transient occupancy tax amount and all applicable penalties and interest due to the city, to the extent allowed by law, for

the entire time during which a dwelling unit was being used as a short-term rental is required.

- b. Complete and accurate records shall be provided to the Finance Department showing historic use of the dwelling unit as a short-term rental. Applicants for Short-Term Rental Permits are subject to audit and subpoena of records. Incomplete or inaccurate documentation may disqualify applicants from obtaining a Short-Term Rental Permit.

24.12.1755 PROPERTIES WITH ACCESSORY DWELLING UNITS.

1. Short-term rentals are not permitted in an Accessory Dwelling Unit or in the main house of an Accessory Dwelling Unit property, except as provided below.
2. An existing Accessory Dwelling Unit property may apply for a short-term rental permit in cases where the Accessory Dwelling Unit property:
 - a. Was issued a transient occupancy registration certificate prior to November 10, 2015; and
 - b. Is in the same ownership as when the transient occupancy registration certificate obtained prior to November 10, 2015 was issued; and
 - c. Is in compliance with the provisions of Chapter 3.28, including payment of all taxes, penalties, and interest due, for any short-term rentals; and
 - d. Is in compliance with the principal residency requirements specified in this chapter; and
 - e. Has remitted transient occupancy tax to the city within the previous calendar year.

24.12.1760 PROPERTY DEVELOPMENT STANDARDS - EXISTING SHORT-TERM RENTALS.

1. Dwelling Expansion. Additions to or expansion of short-term rental properties shall be subject to all development standards pursuant to the zoning district within which the subject property is located. Additions or expansions that increase the property's parking requirements shall require Planning Department permit review to ensure compliance with applicable Zoning Code parking standards.

24.12.1765 PROPERTY DEVELOPMENT STANDARDS - NEW HOSTED SHORT-TERM RENTALS.

1. Parking. On-site parking must comply with the minimum residential standards for the site. Where a parking reduction has been granted for a shared-use or mixed use property, these properties will be reviewed by the Zoning Administrator for evaluation of impacts to neighborhood. The Zoning Administrator shall determine, pursuant to Section 24.12, Part 3: Off-Street Parking and Loading Facilities, whether any non-compliance with residential parking standards is of such significance to the neighborhood to deny a Short-Term Rental Permit.
2. Number of Allowed Short-Term Rentals. Only one short-term rental is allowed per Assessor's Parcel Number.
3. Dwelling Expansion. Additions to or expansion of short-term rental properties shall be subject to development standards pursuant to the zoning district within which the subject property is located. Additions or expansions that increase the unit's parking

requirements shall require Planning Department permit review to ensure compliance with applicable Zoning Code parking standards.

4. Review Process for Multiple-Bedroom Houses. Short-term rental units containing five (5) or more bedrooms shall be subject to a Zoning Administrator public hearing pursuant to the provisions of Chapter 24.04.

24.12.1770 OPERATIONAL STANDARDS.

The following standards shall apply to all existing and new short-term rentals.

1. Maximum Overnight Occupancy. Overnight occupancy for short-term rentals shall be a maximum of two persons per bedroom, plus two additional persons regardless of the age of the occupant.
2. Rental Agreements. Only one (1) rental agreement may be in effect in a short-term rental at any one time.
3. Maximum Number of Vehicles. The maximum number of vehicles allowed at the short-term rental shall be limited to: one vehicle per one bedroom unit, two vehicles per two or three bedroom unit, and one additional vehicle per additional bedroom for units in excess of three bedrooms.
4. Noise Limits. All transient occupants shall be required to follow all standards set forth in Chapter 9.36 of the Municipal Code. Quiet hours shall be between the hours of 10:00 p.m. and 8:00 a.m.; this shall include all amplified noise.
5. Special Events. Short-term rentals are intended to be overnight accommodations in residential neighborhoods. They are not meant to host weddings, parties, or other large engagements. Special events are not allowed in short-term rentals.
6. Local Contact Person. All short-term rental owners shall designate a local contact person, who, if designated to act as such, shall be available twenty-four hours per day, seven days a week, who lives within 20 miles of the short-term rental for the purpose of being able to physically respond within thirty minutes of notification of a complaint regarding the condition, operation or conduct of occupants of the dwelling, and taking remedial action necessary to resolve any such complaint. A local contact person may be the owner or the owner's agent.
7. Posting of Standards. Short-term rental rules shall be posted inside the short-term rental in a location readily visible to all guests. The rules shall include but are not limited to the following:
 - a. Maximum number of guests
 - b. Prohibition of Special Events, parties and large engagements
 - c. Number of vehicles and parking requirements
 - d. Noise regulations including an explicit statement that fireworks are not legal in the City of Santa Cruz
 - e. Trash management
8. Trash and Recycling. Property owner shall inform tenants of trash and recycling days and where to place trash/recycling receptacles. Trash and recycling shall not be stored within public view, except in proper containers for the purpose of collection by the responsible trash hauler and between the hours of 5:00 p.m. the day before and 8:00 p.m. the day of the scheduled trash collection. The owner of the short-term rental property shall provide sufficient trash collection containers and service to meet the demand of the occupants. The short-term rental property shall be free of debris both on-site and in the adjacent portion of the street.

9. Signs. All short-term rentals shall have a sign identifying the structure as a permitted short-term rental and listing a 24-hour local contact responsible for responding to complaints and providing general information, which shall be placed no more than 20 feet back from the nearest street. The sign may be of any shape, but may not exceed 216 square inches (i.e. 12 inches by 18 inches). There is no minimum sign size provided the information on the sign is legible from the nearest street. A sign required by this subsection shall be continuously maintained while the dwelling unit is rented.

24.12.1775 OWNERSHIP AND PARCEL LIMITATIONS.

Except as provided for in 24.12.1780, the following limitations apply:

1. One short-term rental is allowed per each unique Assessor Parcel Number assigned to a residential property; and
2. Only one owner associated with a short-term rental property is eligible for a Short-Term Rental Permit. It shall be unlawful for any other person, even if that person meets the qualifications of an owner, to offer the residential property as a short-term rental property; and
3. A maximum of two Short-Term Rental Permits shall be issued to an owner, regardless of whether the person owns multiple residential properties.
4. All new hosted short-term rentals shall be located in the unit that is the principal residence of the owner, with the exception of duplex or multi-family properties, which may apply for a Short Term Rental Permit for any one unit on the property, so long as one of the units is the principal residence of the owner.

24.12.1780 EXCEPTIONS TO PERMIT ISSUANCE TO OWNERS OF MULTIPLE PROPERTIES OR UNITS ON ONE PARCEL.

An owner of multiple existing non-hosted short-term rental properties or more than one existing short-term units on any one parcel (Assessor Parcel Number) may be eligible to retain those multiple Short-Term Rental Permits for a limited period of three years from the effective date of this ordinance. After the three-year period, the owner(s) of more than two short-term rental, except for accessory dwelling units specified in Section 24.12.1755, may select two of the short-term rentals, provided they meet the requirements of this chapter, for continued use as a short-term rental. Any other dwelling under the same ownership shall not be eligible for a Short-Term Rental Permit and any short-term rental permits issued to those units shall be null and void.

24.12.1785 REVOCATION OR SUSPENSION OF PERMIT.

1. The Director of Planning and Community Development may revoke, or suspend a Short-Term Rental Permit for one or more of the following reasons:
 - a. A property transfer triggering property tax reassessment pursuant to the California Revenue and Taxation Code Section 60 et seq., as determined by the Santa Cruz County Assessor such that the Short-Term Rental Permit associated with the property shall expire and shall also become nonrenewable at the time of the property transfer.
 - b. The permittee has made a false, misleading or fraudulent statement of material fact in the application for the Short-Term Rental Permit, in the information required to be submitted to the city, or in response to inquiries by the city.
 - c. The permittee engaged in any of the following conduct related to this chapter that:
 - i. Resulted in a citation or conviction against the permittee;

- ii. Violated local, state or federal law;
 - iii. Constituted a public nuisance;
 - iv. Breached any condition, requirement, or restriction of the Short-Term Rental Permit; or
 - v. Constituted a hazard to public peace, health, or safety.
- d. Failure to pass inspections required under the provisions of Chapter 21.06 of the Santa Cruz Municipal Code.
 - e. Three or more verified and valid complaints of any violation of the Santa Cruz Municipal Code, state or federal law, as determined by the Director of Planning and Community Development, within a 12-month period, shall be grounds for permit revocation.
- 2. A Short-Term Rental Permit may be revoked, suspended, or additional conditions may be imposed by the Department of Planning and Community Development by providing written notice to the permittee setting forth the basis of the intended action and giving the permittee an opportunity, within 14 calendar days, to present responding information to the Department of Planning and Community Development.
 - 3. After the 14-day period, the Director of Planning and Community Development shall determine whether to revoke the permit, suspend the permit, or impose additional conditions upon the permit and thereafter, give written notice of its decision to the permittee. The permit shall be deemed to be valid until the written notice of the decision has been issued.

24.12.1790 ENFORCEMENT AND PENALTIES.

- 1. Any person or entity operating a short-term rental in the city in violation of any of the provisions of this chapter or in violation of any of the conditions set forth in the applicable Short-Term Rental Permit shall constitute an infraction for the first two violations of this chapter in a one-year period, which shall be punishable by a fine in a bail established by the City Council by resolution. Each such person or entity may be charged with a separate offense for each and every day during any portion of which any violation of any provision of this code is committed, continued or permitted by such person or entity and shall, upon conviction, be punished accordingly. Three violations within a one-year period shall constitute a misdemeanor, which shall be punishable by a fine of one thousand dollars and/or by imprisonment in the county jail for a period of not more than six months.
- 2. Any Hosting Platform that provides a Booking Service for a short-term rental unit in violation of the Hosting Platform's obligations under this chapter, shall be guilty of a misdemeanor, punishable by a fine of \$1,000. Each Booking Service transaction by a Hosting Platform in violation of the chapter shall constitute a separate offense.
- 3. In addition to any other remedy provided by this code, this chapter may be enforced by injunction issued by the Superior Court upon a suit brought by the City of Santa Cruz, or upon a suit brought by any aggrieved party. Pursuant to Municipal Code Section 4.04.020, as part of a civil action filed to enforce provisions of this chapter, a court may assess a maximum civil penalty of two thousand five hundred dollars per violation of this chapter for each day during which any person commits, continues, allows or maintains a violation of any provision of this chapter.
- 4. The City Council declares that this chapter was enacted for the significant public benefit promoting public health, safety and welfare to minimize any adverse impact on

the community due to unregulated short-term rental property and to maintain long-term rental housing stock in the city. Therefore, if a private attorney general plaintiff successfully brings an action to enforce this chapter against any offenders of this chapter, it is the desire and intent of the City of Santa Cruz that the successful plaintiff be able to recover its reasonable attorneys' fees under Code of Civil Procedure section 1021.5, or any similar private attorney general successor statute.

5. The City Council hereby finds and declares that repeated violations of this chapter constitute a public nuisance and which may be enjoined under all applicable law, including but not limited to, Municipal Code Section 4.04.020 and Code of Civil Procedure section 731. Therefore, pursuant to Municipal Code Sections 4.25.010 and 4.25.020, the prevailing party to an action or proceeding to enjoin a public nuisance arising from violations of this chapter shall recover the amount of its reasonable attorneys' fees.
6. The city may take any other action permitted by law to ensure compliance with this title and other city ordinances subject to its administration, including, but not limited to, general municipal code enforcement procedures in Title 4, and inspections and other enforcement procedures provided in Chapter 24.04.
7. The remedies provided herein shall be cumulative and not exclusive. No remedy provided in this chapter shall be deemed to be a prerequisite to the taking of any other action provided for herein.

24.12.1795 APPEALS.

Any operator aggrieved by any decision of the Director of the Department of Planning and Community Development with respect to the provisions of these regulations may appeal the decision in accordance with Section 24.04.180. The Short-Term Rental Permit shall be deemed to be suspended during the pendency of any appeal.

1. Hearing before Planning Commission.
 - a. The applicant or permittee may appeal a decision of the Director of Planning and Community Development to deny, revoke, suspend, or modify a Short-Term Rental Permit.
 - b. An appeal must be initiated by submitting a written statement to the Department of Planning and Community Development and payment of an appeal fee to the City Clerk within ten calendar days of the date of the notice of the Director's decision. Notice of the hearing to be scheduled for the earliest regular meeting of the decision-making body shall be provided by the City Clerk to the appellant not less than five days prior to the hearing date. The appellant shall have the opportunity to present an opening statement, evidence, and a closing statement. Thereafter, the decision-making body shall consider the relevant evidence and the record of the matter, and determine whether to affirm, set aside, or modify the decision appealed therefrom. Thereafter, the appellant shall be notified of the final decision via first class mail.
2. Appeal to City Council.

The decision of the Planning Commission is appealable to the City Council within ten calendar days of the date of the notice of its decision in accordance with Section 24.04.185. The decision of the City Council shall be final, subject to judicial review applying the burden of proof as set forth in Section 24.04.200, and pursuant to Code of Civil Procedure Sections 1094.5 and 1094.6.

Section 2. This ordinance shall take effect and be in force upon approval by the California Coastal Commission.

PASSED FOR PUBLICATION this 10th day of October, 2017, by the following vote:

AYES: Councilmembers Mathews, Watkins, Brown, Noroyan; Vice Mayor Terrazas; Mayor Chase.

NOES: Councilmember Krohn.

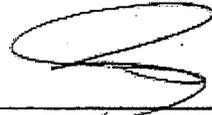
ABSENT: None.

DISQUALIFIED: None.

APPROVED:


Cynthia Chase, Mayor

ATTEST:


Bren Lehr, City Clerk Administrator

ORDINANCE 2017-18

PASSED FOR FINAL ADOPTION this 24th day of October, 2017, by the following vote:

AYES: Councilmembers Mathews, Watkins, Noroyan; Vice Mayor Terrazas; Mayor Chase.

NOES: Councilmembers Krohn, Brown.

ABSENT: None.

DISQUALIFIED: None.

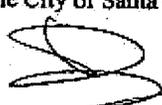
APPROVED:


Cynthia Chase, Mayor

ATTEST:


Bren Lehr, City Clerk Administrator

This is to certify that the above and foregoing document is the original of Ordinance No. 2017- 18 and that it has been published or posted in accordance with the Charter of the City of Santa Cruz.


Bren Lehr, City Clerk Administrator

CALIFORNIA COASTAL COMMISSION

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SAN FRANCISCO, CA 94105-2219
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FAX (415) 904-5400
TDD (415) 597-5885



December 6, 2016

TO: Coastal Planning/Community Development Directors

SUBJECT: Short-Term/Vacation Rentals in the California Coastal Zone

Dear Planning/Community Development Director:

Your community and others state and nationwide are grappling with the use of private residential areas for short-term overnight accommodations. This practice, commonly referred to as vacation rentals (or short-term rentals), has recently elicited significant controversy over the proper use of private residential stock within residential areas. Although vacation rentals have historically been part of our beach communities for many decades, the more recent introduction of online booking sites has resulted in a surge of vacation rental activity, and has led to an increased focus on how best to regulate these rentals.

The Commission has heard a variety of viewpoints on this topic. Some argue that private residences should remain solely for the exclusive use of those who reside there in order to foster neighborhood stability and residential character, as well as to ensure adequate housing stock in the community. Others argue that vacation rentals should be encouraged because they often provide more affordable options for families and other coastal visitors of a wide range of economic backgrounds to enjoy the California coastline. In addition, vacation rentals allow property owners an avenue to use their residence as a source of supplemental income. There are no easy answers to the vexing issues and questions of how best to regulate short-term/vacation rentals. The purpose of this letter is to provide guidance and direction on the appropriate regulatory approach to vacation rentals in your coastal zone areas moving forward.

First, please note that vacation rental regulation in the coastal zone must occur within the context of your local coastal program (LCP) and/or be authorized pursuant to a coastal development permit (CDP). The regulation of short-term/vacation rentals represents a change in the intensity of use and of access to the shoreline, and thus constitutes development to which the Coastal Act and LCPs must apply. We do not believe that regulation outside of that LCP/CDP context (e.g., outright vacation rental bans through other local processes) is legally enforceable in the coastal zone, and we strongly encourage your community to pursue vacation rental regulation through your LCP.

The Commission has experience in this arena, and has helped several communities develop successful LCP vacation rental rules and programs (e.g., certified programs in San Luis Obispo and Santa Cruz Counties going back over a decade; see a summary of such LCP ordinances on our website at:

https://documents.coastal.ca.gov/assets/la/Sample_of_Commission_Actions_on_Short_Term_Rentals

[.pdf](#)). We suggest that you pay particular attention to the extent to which any such regulations are susceptible to monitoring and enforcement since these programs present some challenges in those regards. I encourage you to contact your [local district Coastal Commission office](#) for help in such efforts.

Second, the Commission has not historically supported blanket vacation rental bans under the Coastal Act, and has found such programs in the past not to be consistent with the Coastal Act. In such cases the Commission has found that vacation rental prohibitions unduly limit public recreational access opportunities inconsistent with the Coastal Act. However, in situations where a community already provides an ample supply of vacation rentals and where further proliferation of vacation rentals would impair community character or other coastal resources, restrictions may be appropriate. In any case, we strongly support developing reasonable and balanced regulations that can be tailored to address the specific issues within your community to allow for vacation rentals, while providing appropriate regulation to ensure consistency with applicable laws. We believe that appropriate rules and regulations can address issues and avoid potential problems, and that the end result can be an appropriate balancing of various viewpoints and interests. For example, the Commission has historically supported vacation rental regulations that provide for all of the following:

- Limits on the total number of vacation rentals allowed within certain areas (e.g., by neighborhood, by communitywide ratio, etc.).
- Limits on the types of housing that can be used as a vacation rental (e.g., disallowing vacation rentals in affordable housing contexts, etc.).
- Limits on maximum vacation rental occupancies.
- Limits on the amount of time a residential unit can be used as a vacation rental during a given time period.
- Requirements for 24-hour management and/or response, whether onsite or within a certain distance of the vacation rental.
- Requirements regarding onsite parking, garbage, and noise.
- Signage requirements, including posting 24-hour contact information, posting requirements and restrictions within units, and incorporating operational requirements and violation consequences (e.g., forfeit of deposits, etc.) in rental agreements.
- Payment of transient occupancy tax (TOT).
- Enforcement protocols, including requirements for responding to complaints and enforcing against violations of vacation rental requirements, including providing for revocation of vacation rental permits in certain circumstances.

These and/or other provisions may be applicable in your community. We believe that vacation rentals provide an important source of visitor accommodations in the coastal zone, especially for larger families and groups and for people of a wide range of economic backgrounds. At the same time we also recognize and understand legitimate community concerns associated with the potential adverse impacts associated with vacation rentals, including with respect to community character and noise

and traffic impacts. We also recognize concerns regarding the impact of vacation rentals on local housing stock and affordability. Thus, in our view it is not an 'all or none' proposition. Rather, the Commission's obligation is to work with local governments to accommodate vacation rentals in a way that respects local context. Through application of reasonable enforceable LCP regulations on such rentals, Coastal Act provisions requiring that public recreational access opportunities be maximized can be achieved while also addressing potential concerns and issues.

We look forward to working with you and your community to regulate vacation rentals through your LCP in a balanced way that allows for them in a manner that is compatible with community character, including to avoid oversaturation of vacation rentals in any one neighborhood or locale, and that provides these important overnight options for visitors to our coastal areas. These types of LCP programs have proven successful in other communities, and we would suggest that their approach can serve as a model and starting place for your community moving forward. Please contact your [local district Coastal Commission office](#) for help in such efforts.

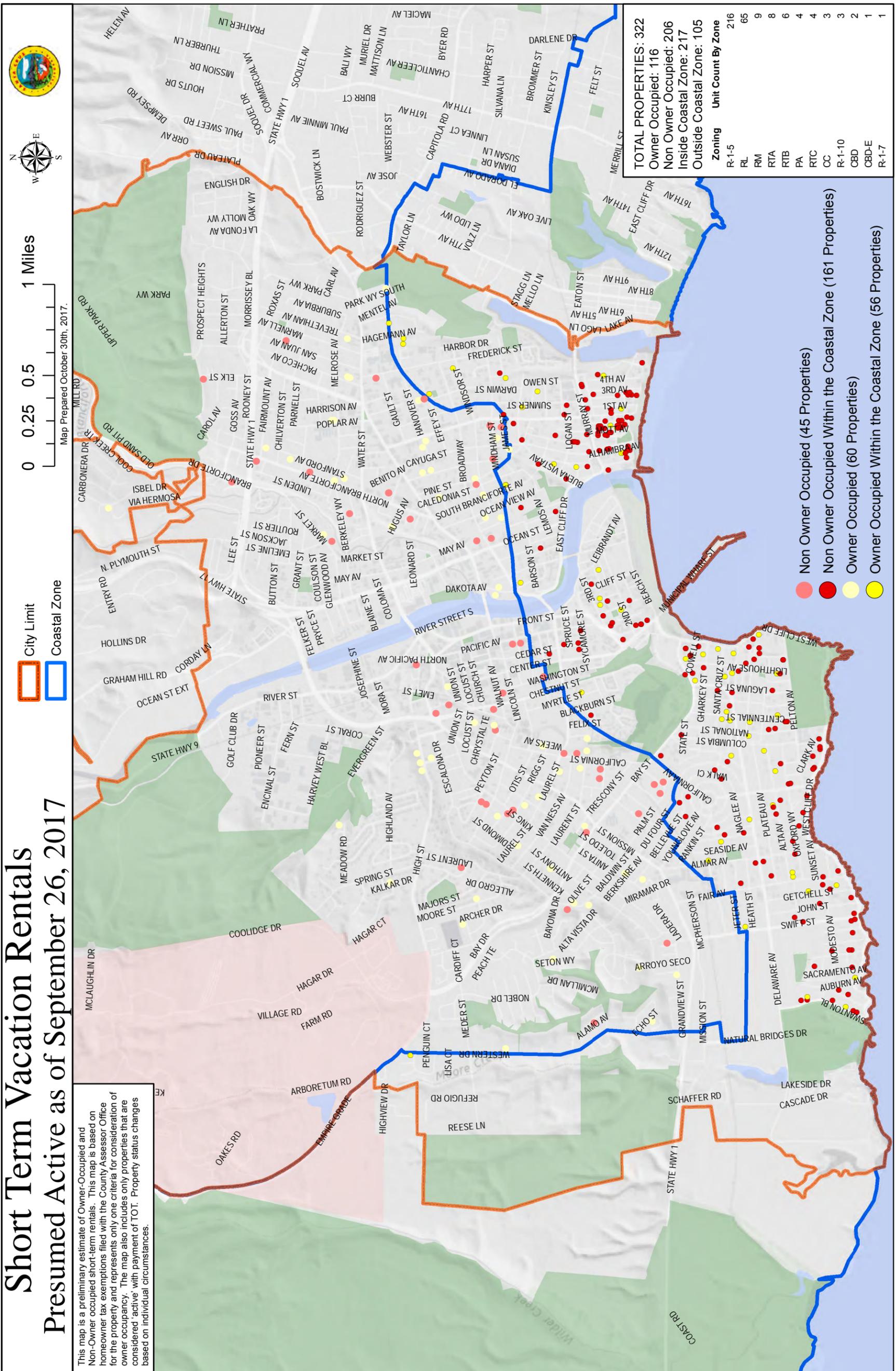
Sincerely,

A handwritten signature in black ink that reads "Steve Kinsey". The signature is written in a cursive, slightly slanted style.

STEVE KINSEY, Chair
California Coastal Commission

Short Term Vacation Rentals Presumed Active as of September 26, 2017

This map is a preliminary estimate of Owner-Occupied and Non-Owner occupied short-term rentals. This map is based on homeowner tax exemptions filed with the County Assessor's Office for the property and represents only one criteria for consideration of owner occupancy. The map also includes only properties that are considered 'active' with payment of TOT. Property status changes based on individual circumstances.



Note that this map only shows those STRs that are currently paying TOT to the City; the number in operation is considerably higher. Additionally, "owner occupied" and "non owner occupied" are not the same as the "hosted" and "non-hosted" STRs defined by the proposed amendment, so it is not possible to predict from these figures the number of non-hosted STRs that would be grandfathered into the permit program under the amendment.

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October 21, 2016

Mayor Cynthia Matthews
City Council Members
City of Santa Cruz
809 Center Street, Room 10
Santa Cruz, California 95060

Subject: Urgency Interim Ordinance on Short-term Rentals

Dear Mayor Matthews and City Council Members:

We understand that the City is grappling with the use of private residences as visitor-serving overnight accommodations. This practice, commonly referred to as vacation rentals (or short-term rentals) has recently elicited controversy, not just in the City of Santa Cruz but state and nationwide, over the proper use of private residences within residential areas. Some argue that private residences should remain solely for the exclusive use of those who reside there because this helps to foster neighborhood stability and residential community character. Others argue the opposite approach, in that vacation rentals should be encouraged because using residential properties for visitor accommodations is an efficient use of land and allows the property owner an avenue to use his or her residence as a source of supplemental income. These are not easy debates, and different areas and different contexts will lead to different conclusions in this respect. The Commission's Executive Director is currently drafting a policy document on short-term rentals for local governments in the Coastal Zone in order to provide guidance on this issue as it relates to the Coastal Act.

In the meantime, we offer the following observations on the short-term vacation rental issue. The Coastal Act describes a hierarchy of encouraged land uses, with agriculture and coastal-dependent industry the highest priority uses to be accommodated within the state's coastal zone, followed by "private lands suitable for visitor-serving commercial recreational facilities designed to enhance public opportunities for coastal recreation." The lowest priority uses are private residential, general industrial, and general commercial.¹ Thus, the Coastal Act places a higher priority on the provision of visitor-serving uses, particularly overnight accommodations, over private residential uses because such visitor-serving uses offer a vehicle for the general public to access and recreate within the state's coastal zone. At the same time, however, the Coastal Act also places a high priority on the protection of sensitive coastal resources, including public views, agricultural lands, environmentally sensitive habitat areas, and wetlands and streams. The Act also protects certain special communities that are popular visitor destination points for

¹ Coastal Act Section 30222.

recreational uses, including certain coastal residential communities near popular shoreline recreational areas and beaches. Thus, the allowance for visitor overnight accommodations must be balanced with the Act's other requirements, thereby requiring a nuanced approach to their regulation.

From our perspective, we continue to support allowing short-term vacation rentals within private residences as an important source of visitor accommodations in the coastal zone. These rentals can also offer lower-cost overnight opportunities, especially for larger families and groups. However, we also recognize and understand community concerns associated with the potential impacts of such vacation rentals, including with respect to community character and noise and traffic impacts. We also recognize concerns regarding the impact of vacation rentals on the local housing stock, including affordable housing.

At this juncture we would suggest that the City work with us to develop regulations that serve to ensure Coastal Act-required protections are in place to address any potential concerns. Commission staff has experience in working with local governments to draft and implement such regulations, including recent LCP requirements associated with vacation rentals for both Santa Cruz and San Luis Obispo Counties.² In place of prohibitions, which the Commission has historically not supported, these coastal communities instead were able to find a balanced middle ground that helps to ensure that vacation rentals are regulated, including for transient occupancy tax and rules and regulations purposes, and limited as necessary to avoid oversaturation of such rentals in any one neighborhood or locale. These programs have proven successful in Santa Cruz and San Luis Obispo Counties, and we would suggest that their approach can serve as a model for the City moving forward. We look forward to working with the City on potential LCP language that meets the City's specific needs and coastal contexts consistent with the Coastal Act.

Thank you for the opportunity to comment on this important issue. Please feel free to contact me with any questions or concerns.

Susan Craig
District Manager
California Coastal Commission - Central Coast District

² See, for example, Santa Cruz County LCP amendments SC0-1-11 Part 3 (approved by the Commission on July 13, 2011) and LCP-3-SC0-15-0008-1 Part A (approved by the Commission on May 14, 2015), and San Luis Obispo County LCP amendment SL0-1-12 (approved by the Commission on November 13, 2013).

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June 28, 2017

Planning Commission
City of Santa Cruz
809 Center Street
Santa Cruz, California 95060

Subject: Short-Term Rental Ordinance

Dear Planning Commission:

We have reviewed the Short Term Rental Ordinance language and staff report and believe that the City appears headed in the right direction with respect to establishing an appropriate balance between the need for this type of visitor-serving accommodation in the Coastal Zone in a way that respects community character and residential neighborhoods on the one hand, and the City's identified need for preserving its residential housing stock, including affordable housing, on the other. The primary purpose of this letter is simply to encourage City staff to work with Commission staff on the actual ordinance language as it is being developed (and before it is adopted), so that we may attempt to resolve any potential issues identified at the staff level, with the ultimate goal of facilitating prompt adoption of the by the Coastal Commission when the ordinance is submitted as a Local Coastal Program Amendment.

Thank you for your consideration. Please feel free to contact me with any questions or concerns.

Ryan Moroney
Supervising Planner
California Coastal Commission - Central Coast District

CALIFORNIA COASTAL COMMISSION

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September 26, 2017

Mayor Chase and City Council
City of Santa Cruz
809 Center Street
Santa Cruz, California 95060

Subject: Proposed Short-Term Rental Ordinance

Dear Mayor Chase and City Councilmembers:

Thank you for the opportunity to comment on this important issue affecting the City, its residents, as well as visitors to the City. As your staff report indicates, the proposed short-term rental (STR) ordinance that you are considering today would be a part of the City's Local Coastal Program (LCP), and thus it would ultimately require review and approval by the Coastal Commission before it could become effective in the portion of the City that is located in the coastal zone. Accordingly, we have been actively working with City staff on the proposed ordinance language, including through letters,¹ emails and multiple meetings with City staff and concerned City residents, in an attempt find common ground, as well as to facilitate streamlined review and implementation of the ordinance. In October of 2016, we expressed our concerns regarding the then-proposed STR urgency ordinance (see letter to City Council dated October 21, 2016, attached), and then subsequently attempted to provide further guidance on the topic of STRs from the then-chairman of the Coastal Commission (see December 6, 2016 letter, attached). The main purpose of the latter letter was threefold: 1) to explain that regulation of STRs must occur in the context of either the City's LCP and/or through CDP processes; 2) to encourage the City to work with Coastal staff to design an ordinance that can be found consistent with the Coastal Act; and 3) to encourage the City to accommodate STRs in a way that respects their value to visitors while also addressing the local context and neighborhood concerns.

In June of 2017, we generally expressed our support for the draft "discussion" ordinance prepared by City staff following the Planning Commission's STR Subcommittee's efforts between December of 2016 and April of 2017, which proposed to cap the number of STRs at 400 units, and impose various other regulatory requirements on STRs (see June 28, 2017 letter to Planning Commission, attached). At that time, the draft ordinance was clearly attempting to find that appropriate balance between allowing for STRs and addressing their potential neighborhood impacts.

In contrast, the now proposed STR ordinance, as recommended by the Planning Commission, proposes to cap the number of hosted STRs at 300 citywide, and to phase-out existing non-

¹ Formal letters are attached hereto and hereby incorporated by reference.

hosted STRs over a period of 10 years (with the exception of “legacy” STRs and grandfathered ADU units (approximately 50 STRs)), and also proposes to not allow any new non-hosted STRs. We understand that the central basis for the limitations on non-hosted STRs is that the Planning Commission believed that a hosted STR was less likely to create a neighborhood nuisance and more likely to preserve long-term permanent housing and the residential character of a neighborhood, due to the hosted property being the owner’s principal place of residency. The Planning Commission expressed concerns that non-hosted STRs serve the same function as businesses in residential zone districts, without the stewardship that comes with principal residency. While we are certainly mindful of these concerns, it is not clear to us that there is a data-driven basis for such a conclusion. Moreover, it is not clear to us that basing the primary structure of the ordinance on hosted versus non-hosted STRs products makes Coastal Act sense. Rather, it is clear to us that the areas of the City nearest the shoreline and associated popular visitor-serving destinations are more attractive for STRs as a general rule than are areas further inland, and we believe that a successful STR ordinance will respond to this distinction and appropriately allow for both hosted and non-hosted STRs in these areas, subject to appropriate rules to address potential issues. A generic citywide cap does not appear to us to appropriately respond to this context.

Moreover, we are equally concerned that the current version of the STR ordinance may present significant issues with respect to Coastal Act priorities and objectives. Indeed, as we explained in our October 2016 letter, the Coastal Act places a higher priority on the provision of visitor-serving uses, particularly overnight accommodations, than it does for private residential uses because such visitor-serving uses offer a vehicle for the general public to access and recreate within the state's coastal zone. This is especially true for locations adjacent to beaches and other visitor-serving attractions. In light of this fact, we would strongly encourage the City to take a step back and modify the proposed STR ordinance so that it allows STRs (non-hosted as well as hosted) in certain highly desirable coastal visitor-serving areas, including but not limited to the areas nearest West Cliff Drive, the Boardwalk, and Seabright Beach. We think that the proposed STR ordinance as it is currently structured lacks sufficient flexibility directed to the most desirable STR areas, and that it would benefit from modifications that recognized and addressed such distinctions.

Our primary issues with the proposed ordinance are set forth above. We have also identified other less problematic concerns, but would very much appreciate the opportunity to work with City staff to resolve these issues. Unfortunately, given that the staff report and draft ordinance language was just released late last week, we have not had sufficient time to work through these issues. That said, we would continue to encourage that the action you take today will provide us with ample opportunity to work with your staff on ordinance language that could better recognize these locational distinctions, and better find that balance between overnight and residential needs, while still achieving an ordinance that realizes other City objectives. We believe working through these issues now, at the front end, makes more sense and would be far more efficient than potentially having to go through potential ordinance modifications by the

Coastal Commission, which would then need to be approved by the City in order for the ordinance to be effective in the coastal zone.

Thank you for your consideration of these comments. We look forward to working with the City to develop an appropriate STR ordinance that balances the legitimate concerns of the City with the mandates of the Coastal Act.

Sincerely,

Ryan Moroney
Supervising Planner
Central Coast District

Attachments

1. June 28, 2017 Letter to Planning Commission
2. December 6, 2016 Letter to Planning Directors
3. October 21, 2016 Letter to City Council

CALIFORNIA COASTAL COMMISSION

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October 10, 2017

Mayor Chase and City Council
City of Santa Cruz
809 Center Street
Santa Cruz, California 95060

Subject: Proposed Short-Term Rental Ordinance

Dear Mayor Chase and City Councilmembers:

Thank you for the opportunity to comment on this important issue affecting the City, its residents, as well as visitors to the City. As the City's staff report indicates, the proposed short-term rental (STR) ordinance that you are considering today would be a part of the City's Local Coastal Program (LCP), and thus it would ultimately require review and approval by the Coastal Commission before it would become effective in the portion of the City that is located in the coastal zone. Accordingly, we have been actively working with City planning staff on the proposed ordinance language, including through letters,¹ emails and multiple meetings with City staff (including just yesterday) and concerned City residents, in an attempt find common ground, as well as to facilitate streamlined review and implementation of the ordinance as set forth in our September 26, 2017 letter to you. We continue to believe that many of the issues raised in that letter have not been adequately addressed. That said, the purpose of this letter is to propose an appropriate path forward to allow for phased implementation of regulations on STRs in a manner that we believe can be found consistent with the Coastal Act and LCP.

As we have previously noted, STRs provide a unique and important visitor-serving accommodation option for visitors to the City seeking to vacation in the coastal zone near the shoreline and other visitor destinations, particularly for groups and families where they can all be under one roof and can gather in one location for meals, relaxation etc., and where this can serve as a 'home base' of sorts for their visit. They also tend to provide a much lower-cost option than more traditional overnight products for such groups and families, including by avoiding the need to rent multiple hotel rooms to cover all family/group members, and facilitating their ability to cook meals on site and avoid the need to go out for every meal. Moreover, non-hosted STRs (as the City defines them), represent the majority of legal STRs in the City (approximately 200 as estimated by City staff) and provide a critical market for STRs in Santa Cruz more broadly. Thus, the primary purpose of our September 26, 2017 letter was to identify potential Coastal Act and LCP consistency issues with respect to the eventual elimination of all non-hosted STRs (NHSTRs) over a five to ten year period as proposed, and to encourage the City to consider STRs in a different way, one that recognized the demand for STRs in designated areas as

¹ Formal letters are attached hereto and hereby incorporated by reference.

opposed to what appears to amount to the eventual elimination of this important visitor-serving resource in the City over the relatively short term.

We understand and very much appreciate the fact that the Council directed staff to revise the ordinance to essentially “grandfather” all legal, existing NHSTRs until the individual NHSTR properties are sold or otherwise transferred. However, over time as these properties change hands, the number of NHSTRs would be reduced, which would reduce the availability in the City of this important visitor-serving option. In addition, such an approach does not recognize the locational distinctions between STRs in the City, wherein the more desirable STRs for coastal visitors are generally located closer to the shoreline and visitor-serving amenities. We offer two suggestions for consideration at this point.

First, we would suggest that if the City is intent on focusing on the existing 200 or so legal NHSTRs, that grandfathering of them should only be a first step in the City’s STR regulation effort, and that at least 200 NHSTR permits should remain even after these properties change hands. In other words, regulations specific to the 200 or so NHSTRs should not presume that these are the only STRs that should be allowed in the City for all time, and/or that they represent the appropriate geographic distribution of NHSTRS in the City for all time. In the short-term, including for equity issues, we can understand grandfathering those existing units in and having a cap based on their current number as part of a first phase of STR regulation. It seems reasonable to presume that any potential impact of these 200 NHSTRs to the residential housing stock has already occurred, and is likely negligible given the City’s overall housing stock. Moreover, these STRs may include a number of second “vacation” homes that will otherwise sit vacant when such properties change ownership. At the same time, though, we think any such 200 unit cap must be understood as a short-term measure that is designed to allow the City to also evaluate and plan for the ways in which NHSTRs near the shoreline and other visitor destinations can be accommodated in a way that respects neighborhoods and other City values. Thus, we suggest that any such cap be temporary to allow for consideration of geographic STR regulation options, and also to allow for the City to make use of information collected from regulating STRs under phase one of such an ordinance.

Second, and to the latter point, we strongly suggest that a phased approach makes better sense at this juncture because it will also allow the City to evaluate the effectiveness of other measures established in the STR ordinance to address neighborhood compatibility issues before making a final decision to eliminate this import visitor serving resource. For example, limiting user numbers, requiring on-site parking, identifying noise limits and quiet times, requiring 24-hour contact information and response, requiring registration, and enforcing penalties on STR owners, including the potential loss of an STR permit for repeat violators, may in fact be enough to address the neighborhood compatibility issues. If not, then the City can later revisit that issue with additional data to support any further changes and refinements. For now, though, a phased approach would allow for the City collect and utilize the data collected in a way that can help refine the ordinance over time; much as has been the case in other jurisdictions with STR ordinances (e.g., neighboring Santa Cruz County).

In sum, we understand and agree with the City's efforts to better regulate STRs, including to balance residential and visitor-serving needs in a manner that respects both. At the same time, absent a phased approach and a commitment to better understand geographic STR distribution as suggested herein and in our previous comments, we anticipate significant problems with LCP certification of the ordinance as it is currently structured. We strongly suggest that the City Council direct City staff to modify the ordinance as suggested here, and we look forward to working with your staff on such modifications. We continue to believe that together we can find an appropriate STR balance in the City of Santa Cruz coastal zone, and we look forward to working with you to make that a reality.

Thank you for your consideration.

Sincerely,

Ryan Moroney
Supervising Planner
Central Coast District
California Coastal Commission

Attachments

1. September 26, 2017 Letter to City Council
2. June 28, 2017 Letter to Planning Commission
3. December 6, 2016 Letter to Planning Directors
4. October 21, 2016 Letter to City Council

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December 22, 2017

Katherine Donovan, Senior Planner
Planning and Community Development Department
City of Santa Cruz
809 Center Street, Room 206
Santa Cruz, California 95060

Subject: Local Coastal Program Amendments LCP-3-STC-17-0073-2 Part A (Downtown Plan); Part B (Short-term Rentals); and Part C (Cannabis Ordinance)

Dear Ms. Donovan:

On December 13, 2017, our office received the City's submittal to amend the certified Local Coastal Program (LCP) related to the City's Downtown Plan (Part A), short-term rentals (Part B), and cannabis regulation (Part C).

The Coastal Act and the Commission's regulations require that proposed LCP amendment packages include "materials sufficient for a thorough and complete review" (Coastal Act Section 30510(b), California Code of Regulations (CCR) Sections 13552 and 13553) before an amendment submittal can be deemed submitted (also referred to as filed). Our staff has reviewed all of the materials provided to date and determined the amendment submittals for Part C (Cannabis Ordinance) to be complete; however, the amendment submittals for Part A (Downtown Plan) and Part B (Short-term rentals) are incomplete at this time. We have identified some key informational needs that must be addressed in order to further process Parts A and B of the amendment in accordance with the provisions of the Coastal Act and the Commission's regulations. Please note that upon receipt of your responses to the questions/information requests below, we may have additional questions before determining that the submittal is complete.

Part A: Downtown Plan

Public Viewshed Issues

The proposed LCP amendments related to the Downtown Plan includes amendments to several policies of the San Lorenzo Urban River Plan (SLURP), which is part of the certified LCP Land Use Plan (LUP). Please note that the standard of review for proposed changes to the LUP is the Coastal Act.¹

¹ The submittal cover letter indicates that the packet of amendments is to the "Implementing Regulations" of the LCP. We assume this was intended to refer to the LCP's Implementation Plan, or IP. The standard of review for changes to the IP is the LUP. In any case, the SLURP is part of the LUP component of the City's LCP, and thus the standard of review for these amendments is the Coastal Act.

As we indicated during the local review process, we have some questions regarding how the proposed amendments will affect public access and recreation as well as public views along the San Lorenzo Riverwalk. With respect to public views specifically, the proposed amendments modify and/or eliminate several SLURP policies that protect public views and the recreational user experience, and the City's analysis indicates that this is in large measure because these policies are not needed, and presumably addressed through other LCP policies (e.g., public view policies, design policies, etc.) Please explain how the objectives of these existing viewshed protection policies will be met through the LCP if they are deleted and modified as proposed, including with specific reference to existing policies that are being retained that would provide similar protections and lead to similar outcomes.

Allowed Land Use Along the Lower Floor Riverwalk Area

The Coastal Act and LCP prioritize visitor-serving and coastal recreational uses over residential uses. Although we share the City's concerns and objectives regarding providing housing, we also believe that areas adjacent to certain primary public areas should be designed to promote Coastal Act objectives, such as fostering visitor-serving uses and development immediately adjacent to the Riverwalk. To address this issue, we understand that the City proposed adding a statement in the Downtown Plan to the effect that "such [visitor serving commercial] uses, particularly restaurants and outdoor cafes, are strongly encouraged to provide direct frontage and active outdoor areas along both the pedestrian passageway and the Riverwalk." While we appreciate this proposed addition, we are not clear how it will achieve the desired outcome, including because there do not appear to be any related LCP standards or incentives that implement such 'encouragement'. Thus, please explain how the LCP will encourage and incentivize such active visitor-serving commercial uses in these critical lower floor areas (e.g., through reduced parking requirements, density and or height bonuses for residential use on upper floors, etc.), including with specific reference to existing policies that are being retained that would lead to similar outcomes.

Private/Residential Use of the Riverwalk Frontage

Finally, with respect to proposed Figure 3-5, we continue to have concerns regarding the use of the public right-of-way along the Riverwalk (and the associated proposed fill areas) for private residential use. Figure 3-5 depicts that this area may be used for private residential use if the property owner "obtain[s] [an] extension license from the City." On this issue, two points. First, please explain what an 'extension license' is, where it is accounted for in the LCP, the standards for issuing same, and the ways in which it retains and promotes a public interest in this public property. Second, and perhaps more overarching, we again reiterate that the entire public space between the Riverwalk and the proposed buildings along Front Street should be fully utilized for public purposes, including maximization of public access and recreation, and that the only type of non-public use that should even be contemplated in these areas (it at all) is an extension of potential visitor-serving commercial uses on the lower floors (e.g., outdoor restaurant seating or other similar uses). It is unclear to us what public utility would be gained by allowing this public resource to be instead used for private purposes, particular given the costs of coastal real estate in the City, and how the Coastal Act and LCP might allow for such a gift of important public land.

This issue is similar and related to the issue above regarding lower floor uses, and it is not clear how the LCP might work towards this objective, if at all. Please explain the ways in which the City envisions the LCP governing these areas, including in relation to proposed Figure 3-5 and any other existing or proposed LCP policy that would be used to identify the kinds and intensities of use that might be allowed in these areas.

Part B: Short-Term Rentals

Proposed Elimination of Short-Term Rentals

We understand that the proposed ordinance is intended to “grandfather” all legal, existing Non-hosted STRs (NHSTRs) until the individual NHSTR properties are sold or otherwise transferred. Then, over time as these properties change hands, the number of NHSTRs would be reduced and eventually eliminated, which would reduce and eventually eliminate the availability of this important lower-cost visitor-serving option in the entire City. As you are aware, to us this raises significant Coastal Act and LCP consistency questions. In addition, such an approach does not appear to recognize the locational distinctions between STRs in the City, wherein the more desirable STRs for coastal visitors are generally located closer to the shoreline and visitor-serving amenities. Moreover, these STRs may include a number of second “vacation” homes that will otherwise sit vacant when such properties change ownership. Please identify the way in which the City intends to implement its NHSTR provisions through the LCP in way that accounts for the loss of lower-cost visitor-serving accommodations if the NHSTRs are phased out and eventually eliminated over time as proposed.

Furthermore, it is unclear to us that the proposed NHSTR provisions are responding to a well-articulated problem. Please provide a clear description of the need for such regulation, including specifically identifying the “problem” presented by NHSTRs in the City, and demonstrating how the proposed regulations (i.e., eventual elimination of NHSTRs) is the most narrowly tailored means to address such problems, including what impact, if any, the regulation is expected to have on such problems. It is not clear to us from the City’s submittal whether the proposed level of regulation of NHSTRs (i.e. eventual elimination) will have any effect on the identified problem(s). For example, limiting user numbers, requiring on-site parking, identifying noise limits and quiet times, requiring 24-hour contact information and response, requiring registration, and enforcing penalties on STR owners, including the potential loss of an STR permit for repeat violators, have proven effective in other coastal communities (e.g., neighboring Santa Cruz County) and may in fact be enough to address identified such neighborhood compatibility issues.

We will hold the City’s amendment request package for three months from today’s date (i.e. until March 22, 2018) pending receipt of this information. After all of the above-listed questions are answered, the package will again be reviewed and will be filed if the information provided is deemed sufficient to complete the review process. Please submit all requested information at the same time. Please note that there may be additional material necessary for filing depending on the responses provided to the contained information requests.

Katherine Donovan
LCP 3-STC-17-0073-2 (Parts A, B, and C)
December 22, 2017
Page 4

Sincerely,

Ryan Moroney
District Supervisor
Central Coast District Office

ZONING / PERMIT PROCESSING
831/420-5100 • FAX 831/420-5434
ADVANCE PLANNING
831/420-5180 • FAX 831/420-5101



INSPECTION SERVICES
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PLANNING AND COMMUNITY DEVELOPMENT DEPARTMENT
809 Center Street • Room 206 • Santa Cruz, CA 95060 • www.cityofsantacruz.com
Lee Butler, Director

December 12, 2017

RECEIVED

DEC 13 2017

California Coastal Commission
Attn: Ryan Moroney
725 Front Street, Suite 300
Santa Cruz, CA 95060

CALIFORNIA
COASTAL COMMISSION
CENTRAL COAST AREA

Re: Amendments to Chapter 24-12 of the Santa Cruz Municipal Code adding Part 18:
Residential Short-Term Rentals

Dear Mr. Moroney:

It is with great pleasure that we are providing, for Coastal Commission review and approval, a residential short-term rental (STR) ordinance that was approved by the City of Santa Cruz City Council on October 24, 2017. This ordinance amends Chapter 24.12 of the Municipal Code adding Part 18: Residential Short-Term Rentals. In adopting this STR ordinance, the City Council and staff acknowledged that this represents the beginning of a process that establishes good-neighbor operating guidelines and a registration process that gathers necessary data that can be used as the basis to inform future actions and potential ordinance revisions and refinements.

The process leading up to the City Council review and final adoption of the Residential STR Ordinance has spanned more than one year of active participation by community members, a Council-appointed subcommittee, and multiple hearings at City Planning Commission and City Council. Every step of this decision-making process was well researched and documented, open and transparent, thoughtfully debated, and ultimately reflective of a middle-ground and balanced position. The ordinance adopted by City Council “grandfathers” and allows over 320 existing registered, tax-paying residential STRs; establishes good-neighbor rules and operating requirement; and allows up to 250 hosted STRs (approximately 130 more than currently exist) in residential neighborhoods.

On October 25, 2016, the City Council, recognizing an increasing demand on housing and the increasing loss of long-term rental housing through on-line vacation rental platforms, adopted an emergency moratorium prohibiting the issuance of new transient occupancy tax registrations for non-owner-occupied residential units in Santa Cruz. The emergency moratorium was extended by the City Council on November 22, 2016 and again on May 9, 2017, and is scheduled to expire on May 31, 2018. Since the October 2016 adoption of a moratorium on new non-owner occupied STR units and leading up to the adoption of the STR ordinance, the City held numerous public hearings and subcommittee meetings and has compiled extensive documentation on local General Plan policies and zoning requirements/ordinances from other jurisdictions in California. Staff reports, correspondence and background information from this year-long process are included in this Coastal Commission packet.

The impact of unregulated STRs on the housing market in Santa Cruz cannot be overstated. The advent and increasing use of on-line rental platforms in recent years has dramatically changed the residential short-term rental market in Santa Cruz and other popular locations in California and around the world. Prior to the founding of popular on-line platforms in 2008, the City of Santa Cruz had approximately 70 registered STRs. Today, there are over 320 registered STRs in Santa Cruz, which represents a five-fold increase in just the last nine years. Additionally, estimates suggest there may be over 200 unregistered STRs in Santa Cruz. The ease and accessibility of on-line residential vacation rental platforms, coupled with the economic incentives to property owners, has disproportionately grown STRs as a commercial land use in residential areas, causing damage to the sense of community fostered by established neighbors and creating an adverse impact of the long-term rental housing stock in this community.

The City staff appreciates the Coastal Commission staff's comments on the final STR Ordinance as provided in the October 10, 2017 letter to the City Council. The letter's stated purpose "is to propose an appropriate path forward to allow for phased implementation of regulations on STRs in a manner that we believe can be found consistent with the Coastal Act and LCP." The City agrees and believes that the ordinance, as adopted by the City Council, accomplishes those goals.

Neither the Coastal Act nor any jurisdiction's LCP anticipated the unprecedented growth in the STR market as it currently exists. What was once a person-to person transaction or one handled by a local real estate broker, the vacation rental market in just the past few years has grown exponentially into a multi-billion dollar online global market. This is an unprecedented level of growth, which essentially has converted hundreds of homes in Santa Cruz into commercial businesses. This unprecedented growth, with commercial businesses displacing long-term housing options and compromising the integrity of residential neighborhoods, cannot be considered the new baseline standard for assessing accommodations in Santa Cruz. Similarly, the recent-inflated number of STRs should not be considered the baseline for the number of visitor

accommodations that should be allowed in perpetuity in the City. In adopting the STR Ordinance, the City Council has attempted to slow the exponential growth of this commercial intrusion into the residential neighborhoods, not prohibit the growth.

The adopted STR ordinance achieves an appropriate balance, meeting local needs along with needs of those visiting the coast. The City agrees with the Commission staff that STRs do provide an important alternative for visitor accommodations. The City Council has chosen to limit that option to a level that the local community has found to be acceptable; balancing local and visitor needs. The adopted STR ordinance allows for the 200 existing non-hosted STRs to continue until such time that they are sold, and allows 250 hosted STRs as an interim step in regulating STRs. The City believes that the ordinance, as adopted, conforms to both the Coastal Act and LCP, as further detailed later in this letter.

The Commission staff's October 2017 letter suggests that an ordinance should recognize geographic areas near the coast that allow STRs. In exploring the various zones and neighborhoods in Santa Cruz, Planning staff agrees with the Coastal Commission staff position that there are zoning districts where STRs would be an appropriate fit. In that regard, we found our R-T, Tourist Residential District, to be an area for further exploration. During our initial research city records revealed that there were only four registered STRs in the Tourist-Residential Zone. For an initial program roll-out, four STR units was not a significant threshold as the basis for a meaningful regulatory framework. However, we agree that as more information is gathered as the program gets underway, there may be opportunities for program refinements for the zoning districts in the coastal area.

The October 2017 letter states that the Commission staff "strongly suggest a phased approach makes better sense" before "a final decision to eliminate this important visitor serving resource." The City contends that the adopted ordinance does indeed take a phased approach and does not eliminate a visitor-serving resource. The ordinance takes a phased approach in that it allows for the City to easily increase the number of hosted STRs by Council resolution, and various Council comments were supportive of increasing the cap after the initial effects of the new ordinance are evaluated. The Council agreed that the effects of the ordinance will need to be analyzed and brought back to them for consideration of revisions and refinements in 12 to 18 months. The ordinance allows all existing hosted and non-hosted STRs to continue in perpetuity until such time that a property is sold. While the ordinance does not authorize new non-hosted STR permits, attrition of both hosted and non-hosted STRs would occur slowly, over time, through owners' individual decisions to sell, sometimes to new owners who may not choose to rent their properties short-term. A key benefit of the non-transferability of STR permits is that the market price of the home would not be driven by the prospect of additional income generated through short-term renting. This was an important consideration in not allowing for transferability of STR permits. The Commission staff's letter contends that "at least 200 (non-hosted STRs)

should remain even after these properties change hands;" however, neither the Coastal Act nor the LCP support this assertion. The gradual reduction of non-hosted STRs over time, particularly when coupled with the substantial increase in the number of hosted STRs, maintains ample opportunities for visitor serving accommodations in the City's residential neighborhoods while also respecting the City's General Plan and LCP policies, as discussed later in further detail.

The City has been clear during the entire process that this ordinance represents a first step in a phased approach with provisions to re-examine, revise and refine the ordinance after an 18 to 24 month period. The ordinance facilitates an increase to the maximum number of hosted STRs by allowing 130 new hosted STRs and allowing that number to increase through resolution, and by allowing non-hosted STRs to continue until sale of the property. A substantial reduction in the overall number of non-hosted STRs will only occur over a period of decades, with revisions to the ordinance certain to occur during that time. These three points clearly illustrate that the City's ordinance provides a phased approach, consistent with the Coastal Commission's request.

The Commission staff's October 2017 letter asserts that the operational restrictions, such as parking and noise limitations, may "be enough to address neighborhood compatibility issues." This is true for individual STRs; however, it neglects to consider the cumulative impacts on the sense of community that is established with long-term residents who know, trust, and rely on one another. A September 2017 map of the existing hosted and non-hosted STRs, included as an attachment to this letter, depicts how the residential integrity of certain neighborhoods (such as the Seabright neighborhood south of Murray Street and neighborhoods adjacent to West Cliff Drive) are being impacted, particularly with the proliferation of non-hosted STRs. Many residents passionately expressed concerns at our public meetings because they no longer have neighbors who they know, since new people are constantly coming and going. Operational restrictions cannot restore this sense of community when a neighborhood or street has a proliferation of non-hosted STRs. Thus, the approved STR ordinance seeks an equitable and balanced approach to (1) allow continuation of existing non-hosted STRs; (2) improve, slowly and over time, the sense of community that concentrated pockets of non-hosted STRs have degraded; and (3) allow for a substantial increase in the number of hosted STRs to expand opportunities for visitor serving accommodations while also housing long-term residents who maintain the sense of community in neighborhoods.

The adopted STR ordinance is consistent with the Local Coastal Program (LCP) and the California Coastal Act. In review of Section 30222 of the California Coastal Act, the priority for development of private lands is directed at "commercial" visitor-serving uses. As detailed above, intrusion of non-hosted STRs has the potential to damage neighborhood integrity and the sense of community that is fostered in a neighborhood. The Coastal Act supports and prioritizes visitor serving commercial uses but does not suggest that such uses should occur in residential

neighborhoods. In fact, to the contrary, the City's adopted LCP contains a policy that specifically calls for protection of neighborhoods from visitor-serving facilities:

LCP Policy 5.3: Provide careful evaluation and require appropriate design of visitor-serving facilities and services to reduce traffic and also *ensure protection of neighborhood*, important views and the natural environment. (*Emphasis added.*)

This policy recognizes that impacts can occur with the commercialization of single and multi-family residential zones, and it directs the City to "ensure protection of neighborhoods." This is consistent with the second Guiding Principal in the City's 2040 General Plan, which calls for the City to "maintain the identity and vitality of our neighborhoods." The STR ordinance's balanced approach to protecting neighborhoods while also expanding visitor serving accommodation options is consistent with both the City's General Plan and its LCP.

For property owners fortunate enough to own a second or vacation home, the value of short-term renting far exceeds that of renting a property on a long-term basis. The financial incentive of short-term renting, coupled with the scheduling flexibility and a temperate year-round climate, creates a perfect storm of obstacles for long-term renting. Without a regulatory framework and reasonable limitations, local residents would continue to face a diminishing long-term rental supply and premium pricing. When comparing median income to housing prices, Santa Cruz has ranked in the top three most expensive places to live in the entire United States for several years straight, and any diminishing supply would only exacerbate the housing crises that Santa Cruz residents currently face.

With regard to the concern that the City's STR ordinance prohibits new non-hosted STRs, the standard adopted by City Council requires an owner of a hosted STR to reside at their principal residence for a majority of the year, which is effectively six months and one day. Further, the adopted STR ordinance does not require the owner to be present during the short-term rental stay. Based on these provisions, a hosted STR can effectively operate as non-hosted STR for half a year. As to the point that the prohibiting new non-hosted STRs creates an adverse impacts to this important visitor serving resource, the City has not seen a shortage of new requests for TOT registrations for hosted STRs during the moratorium period and the adopted ordinance allows new hosted STR units to a maximum of 250 units. From a data-driven perspective, there is no adverse impact to the STR resource.

With regards to tourism, the LCP encourages upgrades to existing hotel facilities and to attract quality hotels and conference facilities. The LCP acknowledges, respects and seeks to protect residential areas. STRs as a specific land use were not previously defined or conceived of on the scale that they presently exist. The City acknowledges that providing some STRs in residential

neighborhoods may provide for lower-cost visitor accommodations, and that is why the adopted ordinance is not a restrictive ordinance, but rather a permissive approach to balancing neighborhood protection with the commercial STR use in residential zones. Pressing jurisdictions to allow and expand non-conforming commercial tourist accommodations in residential zones, as suggested in the October letter, may be appropriate for jurisdictions attempting to impose STR bans or more restrictive use of STRs, but since the City's ordinance is a balanced first step in regulating STRs, pushing for less restriction is unnecessary and not the mandate of the Coastal Commission.

The Commission should also be aware that since 2016, over 400 hotel units have been approved or are under construction. With both the STR ordinance and the recently approved hotels, the City is clearly seeking to expand options for visitor serving accommodations.

The City of Santa Cruz is committed to working with the Coastal Commission, online hosting platforms, citizens and the business community as we move forward with the STR ordinance and permit process. The adopted STR ordinance provides a phased approach and establishes procedures to gather data and to register and permit STR units in conformance with adopted guidelines and operating standards. The City cannot begin this important work until the ordinance is approved by the Coastal Commission. While the Coastal Commission staff may have differences of opinion with various aspects of the adopted ordinance, the ordinance is the result of extensive public review and citizen input. The City's STR ordinance does not harm the unique coastal environment or impede or reduce access to visitor-serving coastal resources. It serves as a first step in a long-term process in which the ordinance will be evaluated, refined, and revised. The City is encouraging certification of the ordinance by the Coastal Commissions to allow the City of Santa Cruz to initiate and implement the STR ordinance and continue with the data collection and evaluation of STR uses in the City. The City respectfully requests that the Commission staff present this information to the Coastal Commission for a decision at the Commission's regular meeting in March 2018, prior to the expiration of the current moratorium.

Thank you for your consideration on this important matter. Please do not hesitate to contact me should you have any questions.

Sincerely,



Lee Butler
City of Santa Cruz
Director of Planning and Community Development



PLANNING AND COMMUNITY DEVELOPMENT DEPARTMENT

809 Center Street • Room 107 • Santa Cruz, CA 95060 • www.cityofsantacruz.com

Lee Butler, AICP, LEED AP

Director of Planning & Community Development

PLANNING ADMINISTRATION

831/420-5110 • FAX 831/420-5101

February 27, 2018

California Coastal Commission

Attn: Ryan Moroney

725 Front Street, Suite 300

Santa Cruz, CA 95060

Dear Ryan,

Thank you for providing an opportunity to meet with you to discuss the City's recently adopted Residential Short Term Rental Ordinance. Thank you, also, for articulating specific questions you have in your December 22, 2017 letter and for allowing the City to clarify a number of important details on the impact that short term rentals (STRs) are having on the City and residents of Santa Cruz. With this in mind, the purpose of this letter is to supplement the cover letter provided to the STR Coastal Commission in December 2017, to further the understanding of our agencies shared priorities and struggles to provide housing for residents and lower cost visitor-serving accommodations, and to respond to your questions and concerns regarding the City's adopted residential STR Ordinance.

Our Shared Priorities and Struggles

As the City continues to study the effects that the residential STR market has on the City, we have also examined the Coastal Commission's efforts to preserve affordable over-night access to coastal areas. What we have discovered is that we both have much in common and have each employed every available tool to preserve the resources that we have been charged to protect.

The City of Santa Cruz, like many jurisdictions in California, whether coastal or not, faces an incredible housing shortage, compounded by high real estate and rental prices, severe and escalating homelessness, and a huge unmet need for affordable housing. The Coastal Commission has for years been grappling with the loss of affordable hotels and motels in popular coastal locations. The same forces that are buying up aging hotels and motels and converting them into costly resort accommodations are also buying up average single family homes in residential neighborhoods and converting them into commercial vacation rentals.

For the Coastal Commission, the conversion of affordable hotels and motels along the coast to expensive resorts has created an adverse impact on your goal of preserving affordable access to the coast. In the very same way, the conversion of average single family homes into commercial short-term rentals represents a growing and significant loss of permanent housing and very much contrary to our goal of preserving housing for residents. Both of our agencies are struggling to secure and maintain affordable accommodations in one of the most beautiful and popular regions in the United States in a business environment with instant global computer access and an incredible amount of wealth and resources available to some.

The City of Santa Cruz is currently experiencing a housing crisis. For the past few years, the residential vacancy rate in Santa Cruz has been below three percent.¹ A vacancy rate of four percent is the accepted rate that accounts for transition between units and is considered full occupancy. In Santa Cruz, and many other jurisdictions throughout California, construction of new housing has not kept pace with the demand for permanent housing. This housing imbalance has been further compromised through the loss of permanent residential housing units by their conversion to commercial rental units. The City of Santa Cruz has routinely ranked in the top three least affordable communities in the country and the least affordable community in California by a variety of sources² when comparing housing prices to income levels. The value of and competition for housing in Santa Cruz is acute. These factors, together and separately, have created a need to enact measures to protect our limited housing stock for residents.

The population of Santa Cruz continues to grow. In 2016, the population within the City of Santa Cruz was estimated to be 63,310³. This represents a population increase of approximately 5,041 new residents since 2010. During that same period of time, the City issued building permits for 439⁴ new residential units including single family homes and multi-family units. The construction of new housing units has not kept pace with the increasing population. New housing is needed to meet the demands of the ever-rising population, and STRs, particularly non-hosted STRs, have the potential to remove much-needed housing from the City's available supply.

The extent of the loss of permanent housing was highlighted in a recent article⁵ on home sales in the in which it was reported that "in December (2017), 24.9 percent of all homes including condos sold in Santa Cruz County were purchased by absentee buyers, up from 23.9 percent in November and down from 29.4 percent in December 2016. Absentee buyers include investors and buyers of second or vacation homes, with the property tax bill going to a different address." This statistic represents a remarkable and exponential loss of housing opportunities for permanent residents. While the City has a long history of supporting visitors and access to the coast, the continuing and unchecked loss of permanent housing at this level is untenable and detrimental to the City.

¹ US Census - American FactFinder 2016 Data

² New York Post, June 23, 2016; Forbes 2018; SFGate, December 13, 2017

³ US Census, American FactFinder

⁴ City of Santa Cruz Permit Tracking

⁵ Santa Cruz Sentinel, February 13, 2018

In the same way that investors are buying older (“mom and pop”) hotels and motels and converting them into five-star resorts, absentee buyers are purchasing average homes in Santa Cruz and converting them into commercial vacation rentals. Both of these scenarios are viewed as detrimental to maintaining the fabric and core values of the resource we have been charged to protect and preserve. Both of our agencies are struggling against the same economic forces.

The business model created through the expansion of online vacation rental platforms has dramatically increased the investment opportunity for those seeking to own a second home or investment property to rent as a STR. Prior to 2008, before the major online vacation rental platforms were founded, the City of Santa Cruz had approximately 70 residential units registered and remitting transient occupancy tax (TOT) as required by the City’s municipal code. By 2017, the number of registered STR units had grown to approximately 300, while at the same time there were over 570 residential units advertised on the various on-line platforms. This represents a four-fold increase in the number of units that registered with the City during the past nine years and an almost equal number of illegal STRs (approximately 270). The ease, efficiency and global reach afforded by on-line platforms made it easy for people to participate in the growing access market. To our City, this unchecked market represents the loss of TOT revenue from legitimate visitor-serving businesses, the loss of permanent housing for local residents, and a threat to the integrity and fabric of neighborhood character and neighbors’ relationships. The extent of these losses compelled the City to take action to curb this unregulated activity.

The Santa Cruz Residential STR Ordinance

Your recent letter to the City, dated December 22, 2017, requests additional information specifically on non-hosted STRs (NHSTR). It should be noted that although the heading in your letter reads “Proposed Elimination of Short-Term Rentals,” the City’s ordinance does not propose the elimination of STRs. In fact quite the opposite is the case; the City’s STR ordinance expands the opportunity for STRs and maintains housing for residents. This is an important point, because **in the same way the Coastal Commission views and encourages coastal accommodations differently, some being more desirable than others, the City views hosted and non-hosted residential STRs differently, one being more desirable than the other.** You correctly note that the City’s ordinance does not allow new non-hosted STRs; however, these units are investment properties and second homes, not owner-occupied units or anyone’s principal residence. From the City’s perspective, these non-owner occupied STR units are less desirable and more impactful STR units, as they are not available for permanent residents to purchase or rent.

The adopted Residential STR Ordinance allows a maximum of 250 hosted STR units. When the City enacted a moratorium on new non-hosted STR registrations in October 2016, the City’s Finance Department reported approximately 100 hosted STR units. Since that time, the City continues to receive registrations for new hosted STR units and has issued over 30 new hosted STR units. It is expected that this will increase even more substantially as the City pursues STRs that are advertised online but not currently registered.

It should be noted the STR Ordinance does not require the host to be present during the guest's stay. Further, to be a hosted STR, the unit must be the owner's principal residence, which only requires that the owner reside there for a majority of the year, which is six months and one day. This means that for hosted STRs, the whole residence could be rented on a short-term basis for just short of half the year, and the home could serve as a STR for the entire year if a portion of it is rented while the owner is present. Based on the current application trend and hosting criteria, the City anticipates a continuing exuberance for hosted STRs.

Attrition Rate of Non-Hosted Short-Term Rentals

Your letter requests further analysis on the effect of not allowing the existing 200 registered non-hosted STR licenses to transfer to a new proprietor, the supposition being that this would result in the elimination of all non-hosted STRs over time. While there is no specific data on the attrition rate (sales rate) of non-hosted STR without the benefit of data gathered through a permit process, which would occur once our ordinance is in place, we have evaluated the sales rate of all single-family homes in Santa Cruz. Using MLS (Multiple Listing Service) home sales data, there were 302 single-family homes sold within the city limits of Santa Cruz in 2017. This represents an annual sales rate of approximately two percent of the City's approximately 15,304 single-family homes. Using this annual sales rate of two percent to represent the potential attrition rate for the 200 existing registered NHSTR lost due to the sale of the unit, after the first ten years approximately 33 units would have been sold and no longer available as STRs. After 20 years, a total of 64 units would have been sold and no longer available to rent as a NHSTR. After 30 years, a total of 89 units would no longer be available to rent as a NHSTR. After 30 years, 111 of the original 200 non-hosted units would still remain available as non-hosted STR units. One could argue further that the projected sales rate of a second or investment property would be lower than that of a permanent residence, which fluctuates with job transfers, school transfers, and other family circumstances, particularly if the investment property was a limited commodity, as would be the case for NHSTRs.

The following table depicts the potential attrition of non-hosted STRs based on recent sales figures:

Potential Attrition of Non-Hosted STRs		
Time Period	Total units lost to sale (2% annually)	Available NHSTR
Start of Program	0	200
After 10 Years	33	167
After 20 Years	64	136
After 30 Years	89	111

As approved, the City's adopted STR ordinance allows approximately 120 new hosted STRs right away; almost twice as many units as would be lost through attrition after 20 years. The City of Santa Cruz desires to have real home-sharing that accommodates visitors and does not take residential units off the market that would otherwise serve people who live and work here.

Coastal Commission staff has expressed a concern that the City's residential STR ordinance would restrict and reduce affordable visitor access to the coast; however, research reveals that this is simply not the case. Currently, there are approximately 766 rooms in licensed commercial facilities in Santa Cruz within or very near the coastal zone that are affordable, most being under \$100 dollars per night, that will remain in place in perpetuity by virtue of appropriate zoning. A list of licensed lodging facilities, prepared by Brion Sprinsock, a member of the City Council appointed STR subcommittee, is included with this letter as an attachment⁶. In addition, there are approximately 23 residential STR units that are located in commercial and residential-tourist zoning districts that could allow for permanent commercial lodging facilities through a use permit process, either in their current state or with minor modifications to the facilities or the Zoning Code (e.g., minor changes to the definitions of motel). These commercial and residential-tourist zones could potentially accommodate additional hosted and non-hosted STR units.

The Coastal Commission has expressed support for residential STRs as they are viewed as being pet friendly, because they accommodate families, and because they have kitchens. However, many Santa Cruz hotels already accomplish these objectives. Per the attached information from Brion Sprinsock, there are 16 hotels and motels within or very near the coastal zone that are pet friendly; seven hotel/motels have kitchens; and 13 facilities accommodate families with rooms that sleep 6 to 8 people. These points are provided to give the Coastal Commission assurance that a substantial number of permanent and affordable visitor-serving accommodations will remain in place that are pet friendly, accommodate families, and have kitchens.

Finally, the expectation that there should be affordable visitor accommodations at the expense of average citizens, particularly through the conversion of residential homes in single-family zoning districts, for use as commercial rental accommodation, would require significant land use revisions, which is not within the purview of the Coastal Commission. The Coastal Commission's desire for affordable visitor access to coastal areas in recent years appears to be looking to residential homes as a solution, where in the past the primary focus was on commercial visitor-serving accommodations.

The concern regarding the Coastal Commission's current position on residential vacation rentals are summarized in a quote from a new book, "Navigating the California Coastal Act", copyright 2018, by Jana Zimmer. "As various coastal cities and counties have begun to resist the vacation rental phenomenon for its negatives effects on the rental housing stock, and in response to residents' complaints about noise, traffic, parking and the loss of neighborhood integrity, and as the Commission is encouraged to consider preservation of existing affordable housing in the Coastal Zone, its analysis of the benefits of vacation rentals may need to be adjusted."

The City of Santa Cruz is asking for your support and help by approving our residential STR ordinance. The ordinance has been thoughtfully crafted following over a year of community outreach and seven public hearings with the Planning Commission and City Council. The ordinance adopted by the City

⁶ Mr. Sprinsock owns a bed & breakfast inn and apartments in Santa Cruz. He prepared the attached information for his own market research, and staff has researched the information to confirm accuracy.

Council provides a balanced set of guidelines and regulations that allows the continued use of over 300 hosted and non-hosted STRs and allows over 100 new hosted STRs in residential homes. This ordinance does not establish an outright ban on residential STRs as some California communities have done. The City is committed to re-evaluating the ordinance following implementation period that would allow 18 months to two years of data collection with which to evaluate the effect of the various criteria and look to the Coastal Commission to let us commence this important work.

Sincerely,

Lee Butler
City of Santa Cruz
Director of Planning and Community Development

Attachments: Santa Cruz Short Term Market Research Information Prepared by Brion Sprinsock