



COMMUNITY DEVELOPMENT DEPARTMENT

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CITY COUNCIL STAFF REPORT

Meeting: September 15, 2020

Subject

Consider amending the Fiscal Year 2020-21 Fee Schedule to establish a new fee for Short-Term Rental Registration

Recommended Action

Adopt the draft resolution (Attachment A) amending the Fiscal Year 2020-21 Fee Schedule to establish a new fee for Short-Term Rental Registration

Background

On August 18, 2020, the City Council reintroduced and conducted the first reading of Ordinance No. 20-2200. This ordinance included requirements for short-term rental (STR) registrations. City Council directed staff to return with options for a Short-Term Rental Registration fee.

The second reading of the ordinance is scheduled for September 15, 2020, the same evening that this fee schedule amendment is scheduled to be considered. If the second reading of the ordinance does not occur or the ordinance is not adopted, this fee schedule amendment will be postponed as well.

Discussion

The Short-Term Rental (STR) Registration fee could be set for full cost-recovery or lower. Full cost-recovery would include:

- Enforcement costs of approximately \$238,889 annually across all STRs, including \$34,289 for third-party short-term rental monitoring technology and an estimated \$249,600 for approximately 2,080 hours of contract code enforcement; and
- One hour of staff time for review and processing, which would cost \$286 per registration at the time the STR Registration fee is effective on November 15.

Currently, there are an estimated 200 STRs in Cupertino. This represents a significant decrease from the estimated 400 STRs prior to the COVID-19 pandemic. Basing the fee on the previous 400 STR estimate would result in a lower fee but may not achieve full cost-recovery if the number of STRs does not return to pre-COVID-19 levels. Similarly, basing the fee on the current 200 STRs will result in a higher fee and better

cost-recovery. Since trends indicate STR activity has been slowly increasing, an estimate of 300 STRs will be used for the purposes of this analysis as it provides a reasonable estimate between the current 200 STRs and the previous 400 STRs. For full cost-recovery, the fee would be \$1,232 assuming 300 STRs.

Alternatively, the STR Registration fee could be set lower than the full cost-recovery amount. At a minimum, it is recommended that the monitoring technology and staff time be recovered. Including only these costs, the fee would be \$400 assuming 300 STRs.

Number of STRs	Full Cost-Recovery Fee (Code Enforcement + Monitoring Technology + Staff Time)	Minimal Cost-Recovery Fee (Monitoring Technology + Staff Time)
300 STRs	\$1,232	\$400

Since the City Council has historically set other permit fees to be full cost-recovery, a full cost-recovery STR Registration fee of \$1,232 is recommended. While full cost-recovery is beneficial to the City during this time of economic uncertainty due to COVID-19, it is possible that a high registration fee could deter STRs from registering. If a lower fee is adopted, the unrecovered costs would be subsidized from the General Fund. It should be noted that the Council could direct staff to present an updated fee when the COVID-19 uncertainty is abated and the STR activity is at or above 400 STRs. The City's fee schedule is reviewed by the Council annually and adjustments may also be made at that time. Based on a survey of other cities (Attachment B), STR related fees in other jurisdictions range from \$104 - \$1,325.

Council expressed interest in the nightly rates for STRs to assess ability to pay. Nightly STR rates in Cupertino are shown below and vary depending on the type of listing.

Type of Listing	Average Price Per Night	Median Price Per Night
Entire Home	\$482	\$175
Private Room	\$86.67	\$66
Shared Room	\$43.6	\$40

Council also expressed interest in exploring a fee on sliding scale based on the number of rooms. Of the cities surveyed, only South Lake Tahoe has a registration permit on a sliding scale, based on occupancy ranging from \$250 for up to four occupants to \$1,325 for more than 12 occupants. It is worth noting that South Lake Tahoe has close to 1,600 STRs. While a sliding scale fee could be established, it is not recommended as the basis for charging a larger STR more would be the assumption that a larger STR requires more enforcement resources. The City does not currently have evidence that

a one bedroom STR would be less impactful than a larger STR and require less enforcement. It is possible the City could develop a sliding scale on the basis that STRs with more rooms receive additional benefits, as they can charge more and earn additional revenue. However, the City would need to collect information on the total number of rooms of STRs citywide through the registration process in order to determine what the appropriate apportionment of fees should be to ensure the City does not exceed cost recovery. Council could direct staff to consider this model in future years after registration has been implemented and information on the total number of rooms is collected.

Sustainability Impact

There is no sustainability impact.

Fiscal Impact

Prior to COVID-19, STR activity was generating about \$400,000 annually for the City in Transient Occupancy Taxes (TOT). Based on the recent data, STRs generated roughly \$2,000, \$5,000, and \$8,649 in TOT in March, April, and May respectively. This shows a significant decrease in STR activity and related revenue. TOT is allocated to the General Fund and the use of TOT does not need to be tied to expenses related to the STR program. The expenses related to the STR program can be fully cost-recovered through the STR Registration fee. However, Council may choose to subsidize the STR program with the General Fund and adopt a lower fee.

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Approved by Submission by: Dianne Thompson, Assistant City Manager

Attachments:

A – Draft Resolution Amending the Fee Schedule to Include a Short-Term Rental Registration Fee

B – Short-term Rental Fees in Other Cities