



WASHOE COUNTY

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STAFF REPORT

BOARD MEETING DATE: August 22, 2023

DATE: July 31, 2023

TO: Board of County Commissioners

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SUBJECT: Recommendation to adopt Resolution R23-125 amending short-term rental (STR) application fees within the Washoe County Development Code Master Fee Schedule, with an effective date of October 1, 2023, as authorized by Washoe County Code Section 110.906.05, and approve an annual adjustment to those fees based on the Western Consumer Price Index beginning on July 1, 2024. This amendment updates fees related to the administration and enforcement of STR standards and permits in unincorporated Washoe County. Proposed updates include: increases of approximately \$270-\$350 for Tier 1 STR permit applications and renewals; new fees for applicant-requested changes to existing STR permits; and a new fee for applicant appeals of Tier 1 STR permits. (All Commission Districts.)

SUMMARY

The Washoe County Board of County Commissioners (Board) is asked to adopt a resolution amending the Development Code Master Fee Schedule (effective date of October 1, 2023) to update fees related to the administration and enforcement of short-term rental (STR) standards and permits in unincorporated Washoe County.

Washoe County Strategic Objective supported by this item: Long-term sustainability.

PREVIOUS ACTION

On May 10, 2022, the Board adopted Ordinance No. 1686, which made amendments to various provisions of Washoe County Development Code (Chapter 110) Article 319, *Short-Term Rentals*.

On March 23, 2021, the Board adopted Ordinance Nos. 1665, 1666 and 1667, which amended Washoe County Code (WCC) Chapters 50, 110 and 125 to establish standards and permitting/enforcement processes for STRs. The Board also adopted Resolution R21-001, establishing fees and fines associated with STRs.

AGENDA ITEM # _____

On February 3, 2021, the Board introduced and conducted a first reading of Ordinances 1665, 1666 and 1667.

On July 10, 2007, the Board adopted changes to WCC Chapter 25 relating to transient lodging.

BACKGROUND

In March 2021, the Board adopted permit fees and standards for STRs to operate in unincorporated Washoe County. This included direction that STR permit fees cover Washoe County's costs to administer the STR program. Initial fees were based on projections before the program was put into place, acknowledging that fees would need to be re-assessed and modified over time to ensure costs are covered.

The STR program has been operating for two years, providing enough time for the new permitting processes to be established, renewals to occur, and streamlining of initial processes to be implemented. This initial work was a significant undertaking. Now that program operations have leveled out, assessments have shown that current STR permit fees are insufficient to cover the staff time and resources required to adequately administer the program. Currently, administration costs are significantly subsidized by the County's General Fund.

Projected FY24 General Fund revenues from STR permit applications are approximately \$257,000. The FY24 estimated cost to the General Fund to administer the program is approximately \$516,000. This represents a shortfall of \$259,000, which is currently subsidized by the General Fund.

To reduce this shortfall, a dual approach is recommended:

- First, non-enforcement-related program administration should be shifted from existing professional-level Planner and Senior Planner positions to two new Planning Technician (para-professional) positions at a lower salary rate, representing an annual salary and overhead savings of approximately \$92,500. A one-time ancillary cost estimated at \$13,500 would be associated with creating the new positions (proposed to be recouped over a period of two years, or \$6,750 annually, with an expectation that fees will be re-evaluated within 24 months). Combined, this change would reduce General Fund STR administration and enforcement costs to an estimated \$430,500, and a reduced annual shortfall of approximately \$173,500. *Note: should the Board adopt the proposed fee changes, a subsequent request will be submitted for creation of the new positions through the standard Washoe County budget process for FY 25. The Planners and Senior Planners that are currently temporarily reassigned to support the STR program will return to normal planning duties at that time.*
- Second, STR permit application fees should be increased to mitigate the remaining \$173,500 annual shortfall.

Staff proposes to maintain the existing 10% permit application fee discount for STRs managed by licensed property managers.

To cover the difference between expected program revenues and the cost to administer the program, initial permit and renewal fees are proposed to increase by approximately \$270-\$350, based on the following:

- The per-permit increase is based on the estimated shortfall, divided by a conservative estimate for the number of permits anticipated for the upcoming year (675). It is further adjusted to account for program discounts and the specifics of the permit (ex. new permit or renewal; inside or outside of Tahoe Basin; inspection or self-certification, etc.).
- Proposed changes incorporate a new \$45 fee for STR permits in the Tahoe Basin to support litter-removal services provided by Clean Tahoe in the Incline Village/Crystal Bay area. This increase is included in the base fee and is not subject to the 10% discount for licensed property managers.
- The 4% Regional Technology Fee applied to all STR permits will be updated as fees are adjusted.

Current fees for new Tier 1 STR permits and renewals range from approximately \$435 to \$846. Proposed fees for these same types of permits range from \$706 to \$1,194. Additional new fees are proposed for changing the local responsible party/agent, changing the maximum occupancy for Tier 1 permits, and an applicant's appeal of a Tier 1 STR permit's denial.

Annual Consumer Price Index (CPI) Changes

The Western CPI is a measure of the average change over time in the prices paid by urban consumers for goods and services. Establishing the proposed annual increase based on the Western CPI will help avoid major fluctuations in fees and better ensure revenues keep pace with costs.

Tiering System and Components of Tier 1 STR Permit Fee

Washoe County issues permits for STRs using a tiered system based on the maximum number of occupants. All STRs are required to obtain a Tier 1 permit, which is issued by right if all permitting requirements have been met. Tier 1 permits authorize up to ten occupants. Tier 2 permits (up to 20 occupants) require an additional Administrative Review Permit, and Tier 3 permits (over 20 occupants) require a Special Use Permit. Fee changes are only proposed for Tier 1 permits. No changes are proposed to the Administrative Review Permit and Special Use Permit fees associated with Tier 2 and Tier 3 STRs.

The Tier 1 STR Permit fee is composed of two parts: (1) a base rate calculated to cover known annual costs with minimal variation (ex. Host Compliance contract, salary of dedicated program staff, overhead, etc.); and (2) An hourly-based rate for inspections and permit reviews conducted by building and fire personnel. The building and fire portions of the fees are not proposed to be changed at this time.

Resources Expended to Manage the STR Program

Administration and enforcement of STR permits cover a wide range of duties provided by staff from planning, building, code enforcement, technology services, and each of the fire

districts. Additional hard costs include the County's contract with Host Compliance, an STR compliance monitoring service. Permit fees are intended to cover:

- Overall program administration, including a high volume of communication with applicants, other interested parties, and complainants;
- Permit and renewal processing, including change requests;
- Monitoring by Host Compliance (third-party service);
- Operation of a 24-hour complaint hotline (third-party service);
- Code enforcement investigations and responding to complaints/violations;
- Plan review by planning, building, and fire personnel;
- Safety inspections by building and fire personnel;
- Accela permit software development/enhancements;
- Services provided by Clean Tahoe within the Tahoe Basin; and,
- Other related items.

The Tier 1 STR Permit base fee is designed to cover all items above except for those completed by building and fire personnel. Their fees are identified separately from the base fee within the fee schedule and are included as part of the overall Tier 1 STR permit fee.

STR permit fees do not currently cover, and are not proposed to cover, resources required to amend STR-related ordinances.

Staffing Resources

In July 2023, there were approximately 685 STR permits currently active in unincorporated Washoe County. On a regular basis, new applications are submitted and existing STRs stop operating. Renewals occur on an annual basis. Safety inspections are required prior to initial permit issuance and at a minimum of every fourth year. Accela is used for both permitting and renewals. Host Compliance (Granicus) is used for monitoring compliance.

STR enforcement is provided by 1.0 full-time equivalent (FTE) Code Enforcement Officer position dedicated to the STR program. Program administration requires an additional 1.5 – 2.0 FTE employees depending on the season. This is currently staffed by 1.5 FTE Planner positions, with a mix of Planners and Senior Planners providing an additional 0.5 FTE of assistance.

When the program was established, the enforcement officer was the only new FTE position created. No additional planning staff were hired at the time due to lack of certainty about the volume of permits that would ultimately be processed. Since program launch in 2021, existing planning staff have administered the program. This temporary re-assignment of duties has significantly impacted the planning staff's workload and ability to complete program duties. It has also meant that staff's ability to effectively manage the STR program has been hampered, resulting in less-than-optimal service delivery. Hiring dedicated staff at the appropriate level to administer the program will alleviate both issues, resulting in improved service for both STR and general planning customers, and greater ability to meet planning program objectives.

Enforcement

In FY22, there were 415 complaints made to the 24-hour complaint hotline. In FY23, there were 197. The most frequent complaints relate to unpermitted STRs, followed by parking and noise. In addition to responding to complaints received, enforcement staff proactively identify and bring into compliance STRs that are advertised without an issued STR permit.

During the public engagement process for the proposed fee changes, a desire for additional STR enforcement was raised several times. In response to these concerns, the following program enhancements are proposed:

- Should the proposed position requests be approved, one of the new Planning Technician positions will dedicate a portion of their time to providing additional support for STR enforcement.
- Enforcement staff and Sheriff's Office staff have committed to establishing a regular data exchange related to identifying when calls for service are on properties with a permitted STR.
- The enforcement team will notify the Sheriff's Office of STRs with repeated complaints, and patrol officers stationed in IV/CB will increase presence near those areas when possible.
- The STR-code enforcement officer will conduct street-side spot checks at various STRs on select days/times over the summer as an additional proactive enforcement mechanism.

Public Input

Information about the proposed fee changes and opportunities to provide input was emailed to over 3,500 recipients in late June 2023. Email recipients include those listed as contacts on active STR permits and those subscribed to receive updates about STR ordinances.

Community input was solicited using two methods: an online survey and the July 5, 2023 Incline Village/Crystal Bay Citizen Advisory Board (CAB) meeting (offered via Zoom and in-person).

The online survey was open June 29 – July 31, 2023 and received 149 responses. The survey included the following questions (response summary in parentheses):

- Do you own or operate an STR in Washoe County? (72% yes; 28% no)
- Do you believe that the costs to administer Washoe County's STR program should be fully covered by STR permit application fees? (35% yes; 17% uncertain; 48% no)
- Knowing that STR application fees currently do not cover the cost to administer the program, do you believe those fees should be increased? (31% yes; 15% uncertain; 54% no)
- Using the scale below, please rate whether the general increases described above seem reasonable or unreasonable (1 being unreasonable, 5 being reasonable) (Average score of 2.52)
- Area of Washoe County you are most interested in (ex. area within which you live and/or operate an STR) (93% indicated Incline Village/Crystal Bay)

- What questions or additional input would you like to offer? (Various narrative responses were received. Full results are provided as **Attachment C.**)

Survey data was further analyzed by dividing responses into two major categories - STR owners and non-STR-owners. This deeper insight revealed that, in general, STR owners do not believe permit fees should cover the cost to administer the STR program, and that proposed fee increases are generally unreasonable (average score of 1.75). On the other hand, non-STR-owners generally believe that fees should cover costs to administer the program, and that the proposed fee increases are reasonable (average score of 4.48).

Topics of concern noted at the CAB meeting and via the survey can be summarized in two broad categories: those who have concerns about the impacts of STRs present in their community; and those who would like to see lower fees and more simplified permitting processes for STRs. Key ideas from various comments within each category are excerpted below.

- Concerns about STRs in general: Desire for more enforcement; desire for area visitors to respect the Tahoe Basin; more STR regulations needed; concerned about community impacts, including workforce housing availability; support fee raises; neighbors should not subsidize others' vacation homes; STRs destroying community fabric; fee changes are minimal in comparison to STR nightly rates; STRs increase road capacity issues and should include cost recovery for broader impacts to infrastructure; more enforcement is needed on weekends; increase fees to increase oversight.
- Concerns about STR fees and processes: Many STR owners are responsible second home owners; would like lower fees and not see a substantial increase; desire to see more specific financial data; would like to see lower rates for less-used STRs; increasing fees will decrease demand; there are many costs associated with running an STR; program efficiencies are needed; processes should be simplified, not fees raised; travel demand is down and costs are up; consider positive economic impacts of STRs; use room tax instead of increasing fees; if fees are increased, relax standards; no permits are needed; fees should be waived in rural areas; General Fund subsidy is appropriate; limit the number of STR permits instead of increasing fees; resolve inefficiencies; increase software automation.

FISCAL IMPACT

When the program is appropriately staffed, annual General Fund recurring costs to administer and enforce STR standards and permitting at current levels are estimated at approximately \$430,500. These costs are expected to be offset by the updated Tier 1 STR Permit base fees. Building and fire plan review and inspection costs will continue to be offset by the Building and Fire District fees built into each STR Permit fee and are based on time to review each permit. *Note:* Fire District fees are adopted by the applicable fire boards and are subject to change over time.

STR administration and enforcement costs are paid and accounted for in the General Fund, Planning, Short Term Rental (105404) cost center. STR permit fees received will be deposited and recorded in the same cost center (105404), Short Term Vacation Rental Fees (421107) account.

The portion of the STR permit fees specific to inspections are distributed to the relevant funds (Washoe County's Building & Safety Enterprise Fund [560]; and Truckee Meadows Fire Protection District Fund or North Lake Tahoe Fire Protection District, as appropriate).

RECOMMENDATION

It is recommended the Board adopt the resolution included as Attachment A to this staff report and further authorize the Chair to sign the resolution on behalf of the Board with an effective date of October 1, 2023.

POSSIBLE MOTION

Should the Board agree with staff's recommendation, a possible motion would be:

“Move to adopt the resolution included as Attachment A to this staff report and further authorize the Chair to sign the resolution on behalf of the Board of County Commissioners with an effective date of October 1, 2023.”

Attachments:

- A. Resolution with Amended Fee Schedule for STR Applications
- B. Current Development Code Master Fee Schedule for STR Applications
- C. Online survey responses and additional public comment