



Committee of the Whole Report

For the Meeting of February 22, 2018

To: Committee of the Whole **Date:** February 15, 2018
From: Chris Coates, City Clerk
Subject: Short Term Rental Regulations – Proposed Business License Fees

RECOMMENDATION

That Council:

1. Approve of the proposed short term rental annual business licence fee of \$150 for principal residence and \$1,500 for all other short-term rentals;
2. Direct staff to bring forward the Short Term Rental Regulation Bylaw at the February 22, 2018 Council meeting for introductory readings;
3. Approve holding an opportunity for receiving public comments on the proposed Bylaw in conjunction with the Public Hearing for Zoning Amendment Bylaw (Short Term Rental Home Occupations) Bylaw No. 18-035; and,
4. Direct staff to report back to Council in Quarter 4 of 2018 with an update on the short term rental program, including budget implications.

EXECUTIVE SUMMARY

On September 21, 2017, Council approved a proposed short term rental regulatory framework, which included allowing short term rental in principal residences, subject to receiving a business licence and complying with operating requirements. Based on community feedback in the fall of 2017, as well as on-going data analysis, staff recommended finalizing business licence fees in Quarter 1 of 2018.

The proposed licence fees have been set at a level necessary to recover anticipated costs of administering and enforcing the proposed regulatory scheme. Four types of business licence fees are included in this report for Council's consideration and include:

- Tiered fee based on the number of bedrooms (e.g. studio, 1 bdrm);
- Tiered fee based on if the dwelling is the principal residence of the operator or not;
- One-time application fee with an annual licence fee; and,
- Flat fee, where all operators pay the same amount.

Based on additional analysis, staff recommend a two-tiered fee structure for principal residence and non-principal residence, which is consistent with the fee structure originally proposed in the September 21, 2017 report to Council. The tiered structure allows for use of fees to discourage short-term rental in non-principal residences. Additional program cost-savings have been identified, which has reduced the costs of business licence fees by 25% for principal residences and 40% for non-principal residences.

Operators who list their entire principal residence occasionally (e.g. while on vacation) and/or rent a private room while they are present would pay \$150 annually. Non-principal residences, including investment properties and second homes would be subject to a \$1,500 annual fee. Given the zoning changes approved by Council in September 2017, the \$1,500 fee would only apply to units that qualify for legal non-conformity based on provisions in the Local Government Act.

The proposed STR Regulation Bylaw is attached as Appendix A. A draft of the bylaw was included in the November 23, 2017 Committee of the Whole Report. The current draft includes minor drafting adjustments, the reduced fee amounts, and clarification that the responsible person must reside within a reasonable distance (2 hours travel time) to the short term rental property.

Should Council approve of the staff recommendations, the new regulations are expected to come into effect in April 2018. Prior to this, new staff will be hired to implement the program and a third-party compliance monitoring firm retained. The regulations will be communicated widely throughout 2018 to ensure operators are aware of the changes and can pro-actively comply with the new rules. Staff will report back to Council six months after the new regulations are enacted in Quarter 4 of 2018 with an update on the program, including a reconciliation of costs to date and forecasts for future revenue and expenses.

PURPOSE

The purpose of this report is to seek Council direction on the proposed business licence fees. Staff are also seeking approval to bring forward the Short Term Rental Regulation Bylaw at the February 22, 2018 Council meeting for introductory readings.

BACKGROUND

Previous Council Direction

On September 21, 2017, Council approved a proposed short term rental regulatory framework. The regulatory framework included allowing short term rental in a person's primary residence, subject to a business licence and compliance with operating requirements.

Council also approved an enforcement strategy, which involves engaging a third party monitoring service to proactively identify short term rental addresses and identify non-compliant operators. New City staff, both temporary and permanent will be hired to oversee the program, process new business licence applications and pursue enforcement action on all non-complaint operators such as fines, licence revocation and legal proceedings.

On November 23, 2017, based on community feedback and on-going analysis, Council approved finalizing business licence fees in Quarter 1 of 2018. The November report had proposed a fee of \$200 for principal residence and \$2,500 for non-principal residence, with the latter only applicable to legal non-conforming units. A draft of the Short Term Rental Regulation bylaw was also included in the November 23, 2017 report to Council.

This report responds to the following Council Motions from November 23, 2017:

1. Direct staff to report back to Council in Quarter 1 of 2018 with finalized short term rental business licence fees, in conjunction with the short term rental implementation plan.
2. Direct staff to bring forward the short term rental regulation bylaw in Quarter 1 of 2018 for introductory readings.

ISSUES & ANALYSIS

Business Licence Fees

City retained an external consulting firm to provide detailed analysis on existing and potential future short term rental use in the City. This information, coupled with the estimated costs to administer the program as well as anticipated compliance rates was used to develop business licence fee structures and amounts for Council's consideration.

Four options were developed:

- One-time application fee with an annual licence fee;
- Tiered fee based on the number of bedrooms;
- Tiered fee based on if the dwelling is the principal residence of the operator or not; and
- Flat fee

Table 1. Proposed Business Licence Fees

Fee Type	Category	Licence Fee (\$)
Application Fee/ Annual Licence Fee	Application Fee	\$115
	Annual Licence Fee	\$445
Number of Bedrooms	Studio	\$400
	1 bdrm	\$450
	2 bdrm	\$475
	3 bdrm	\$500
	4 plus bedroom	\$550
Principal Residence/Non-Principal Residence	Principal Residence	\$150
	Non-Principal Residence	\$1,500
Flat Fee	N/A	\$550

Staff recommend that Council approve of the two-tiered fee structure, which differentiates between whether the short term rental is the principal residence of the operator or not.

All of the options presented were developed to cover anticipated costs of administering the program. However, only the principal residence/non-principal residence option is able to meet multiple City objectives, including administrative simplicity, ease of enforcement and a high likelihood of voluntary compliance. Establishing a high fee for non-principal residence STR (e.g. investment properties or second homes) also discourages this type of commercial use, which Council has indicated is a priority due to its impact on the rental market. Consequently, by setting a higher fee for non-principal residence, the business licence fee for a principal residence STR can be kept extremely low making short-term rental a viable option for occasional use or as a source of supplementary income.

Alternatively, if Council seeks to treat all operators equally, staff recommend selecting an alternative fee option. However, it is important to note, that voluntary compliance is expected to decrease sharply the higher the licence fee is.

Table 2. Fee Structure Evaluation

Objective	Application Fee/ Annual Licence Fee	Number of bedrooms	Principal Residence/Non-Principal Residence	Flat fee
Cost recovery	✓	✓	✓	✓
Administrative simplicity	✓	X	✓	✓
Ease of enforcement	✓	X	✓	✓
Likelihood of voluntary compliance	X	X	✓	X
Promotes Council's objective	X	X	✓	X
Fee is proportional to revenue potential	X	✓	✓	X

STR Business Regulation Bylaw

The proposed STR Regulation Bylaw is attached as Appendix A. It is very similar to the draft bylaw presented to Council on November 23, 2017. The proposed Bylaw includes minor drafting adjustments, the reduced fee amounts, and clarification that the responsible person must reside within a two hour travel distance. If Council approves of the recommendations in this report, staff will bring the bylaw to the February 22, 2018 Council meeting for introductory readings.

In addition, under section 59 of the Community Charter, Council must provide an opportunity for the public to make representations to Council, and for Council to consider the process by which notice of the opportunity is provided. Because there are accompanying changes to the Zoning Bylaw associated with the Short Term Rentals, a public hearing is required. This creates an opportunity to combine the Zoning Amendment Bylaw Public Hearing and the Opportunity to make submissions to Council on the proposed Short Term Rental Regulation Bylaw. This could also include combining newspaper notices as an effective and efficient means of notifying the public of this opportunity.

Implementation Plan

Pending Council approval, the proposed short term regulations are expected to be enacted by April 2, 2018.

Additional staff have recently been hired to oversee the program, administer business licences and enforce the new regulations. An RFP will be issued shortly for the third-party monitoring and compliance firm. Staff will assess proposals in March and expect to issue a successful award in April. A strong communications plan, both in the lead-up to implementation and as the STR program rolls out will be undertaken, in order to demonstrate the City's seriousness in following through with compliance and enforcement and in achieving policy goals.

Staff will report to Council in Quarter 4 of 2018 to provide an update on the program, including updated costing and suggested improvements prior to business licencing renewal in 2019.

Table 3. Proposed Implementation Plan

Activity	Date
Committee of the Whole/Council/Bylaw Approval	February/March 2018
New staff begin	End of February 2018
RFP Issued for third-party monitoring firm	End of February 2018
Launch STR communications program	March 2018
Business licence application and process testing	March 2018
Third-party monitoring firm begins	April 2, 2018
STR regulatory framework enacted	April 2, 2018
Report back to Council with 6 month review of program	October 2018
First annual renewal of STR business licence	January 2019

OPTIONS & IMPACTS

Business Licence Fees

Option 1 (Recommended): Approve of an annual business licence fee of \$1,500 for non-principal residence and \$150 for principal residence STR.

This option is easy to administer as well as verify compliance as applicants will need to provide proof of principal residence at the time of submission of their application. The fee for principal residence has been kept as low as possible to encourage a high rate of voluntary compliance – a key component of a successful STR program.

Licence fees for non-principal residence have been lowered from original estimates but still kept high to discourage this type of STR activity due to its potentially negative impact on rental market. Because year-round rental of an entire unit STR can generate more revenue than principal residence, where STR is a secondary use, the higher fee is still considered affordable and reasonable.

Option 2: Council may approve an alternative fee structure and amount (not recommended).

Council may choose another fee structure and amount. Both the flat fee and the application fee with the annual licence fee treat all STR operators equally but that translates into higher fee amounts for all operators. Fees based on number of bedrooms charges slightly more based on potential revenue generation (i.e. more bedrooms) However, this fee option is the most difficult to administer as well as verify, so is not recommended.

Accessibility Impact Statement

There are no impacts on accessibility associated with the recommendations contained in this report.

2015 – 2018 Strategic Plan

This work is identified as a key priority in the Strategic Plan under Objective 6: Make Victoria More Affordable 2017 Actions: Strengthen policy and regulations related to Short Term Rentals.

Impacts to Financial Plan

The objective of the licence fees is to achieve full cost recovery to administer the regulatory regime. This will be impacted by the level of compliance and enforcement efforts necessary. First year costs have been refined to approximately \$375,000 from an original estimate of \$512,000. The update report in Q4 will address the degree of cost recovery based on the uptake of licenses in the initial

term. At this point it is not clear what the degree of success will be initially. Costs and revenues will have to be monitored to identify whether any changes to the fees would be required going forward.

Official Community Plan Consistency Statement

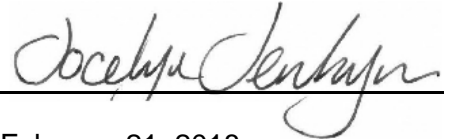
The recommended approach aligns with the directions in the Official Community Plan of "Land Management and Development" and "Housing and Homelessness"

Respectfully submitted,



Chris Coates
City Clerk

Report accepted and recommended by the City Manager:



Date: February 21, 2018

List of Attachments

Appendix A – STR Regulation Bylaw

Appendix B – November 23, 2017 CoTW Report

Appendix C - September 21, 2017 CoTW Report