CITY OF PACIFIC GROVE

300 Forest Avenue, Pacific Grove, California 93950

AGENDA REPORT

TO:	Honorable Mayor and Members of the City Council
FROM:	Tori Hannah, Administrative Services Director
MEETING DATE:	June 20, 2018
SUBJECT:	Receive Report Regarding the Projected Fiscal Impact to the "Initiative to Preserve and Protect Pacific Grove's Residential Character"
CEQA:	Does not constitute a "Project" under California Environmental Quality Act (CEQA) Guidelines Section 15378.

RECOMMENDATION

Receive the report.

DISCUSSION

On June 1, 2018, the proponents of the "Initiative to Preserve and Protect Pacific Grove's Residential Character" were issued a Certificate of Sufficiency of Initiative Petition from the City Clerk's Office. This proposed initiative would prohibit short-term rentals in the City's residential districts, outside of the Coastal Zone. In accordance with Elections Code 9114, the City Clerk presented the results of the examination of the petition to the City Council on June 6, 2018. At that time, staff also recommended that Council adopt a resolution accepting the City Clerk's Certificate of Sufficiency, while also recommending that the City Council either:

a. Adopt the ordinance, without alteration; or
b. Place on the general election; or
c. Order a report pursuant to California Elections Code 9212. This code would require the report to be prepared and presented no later than 30 days from June 6, 2018.

The City Council directed staff to prepare a report to determine the initiative's fiscal impact to the City. The Matrix Group was retained to perform this study; however they indicated that the report would be limited to a high-level of analysis due to a condensed time frame. A copy of the report is included in Attachment 1. This report provides an overview of the fiscal impact that could result from the potential loss of transient occupancy tax, license fees, and application fees associated with short-term rentals outside of the commercial and coastal zones. Scenarios included reductions due to density adjustments or the lottery; loss of non-coastal zone short term rentals, and the potential net impact associated with either a 2% transient occupancy tax for commercial and short-term rentals; or a 2% transient occupancy tax for commercial properties

and a 5% TOT tax for short-term rentals. The overall analysis projected that the City could lose between $546,000 to $1.25 million in revenues, depending on the scenario.

The study was also commissioned to review any additional impacts to the City, such as sales tax or other economic factors. The Matrix Group noted that it would be difficult to project some of these impacts due to the qualitative nature associated with lodging selections; and the multiple variables that would be considered from an economic standpoint. To assist in understanding some of the challenges in projecting the ancillary impacts, Courtney Ramos will present this information, along with the report at the June 20, 2018 Council Meeting.

OPTIONS

1. Receive report
2. Provide alternative direction to staff.

FISCAL IMPACT

There is no fiscal impact associated with this action; however if the initiative were pass to the City could be impacted based on the projections within this report.

GOAL ALIGNMENT

Fiscal Sustainability

ATTACHMENTS

1. Revenue Analysis for Non-Coastal Short Term Rentals

RESPECTFULLY SUBMITTED:

Tori Hannah
Administrative Services Director

REVIEWED BY:

Ben Harvey
City Manager

Revenue Analysis for Non-Coastal Short Term Rentals

CITY OF PACIFIC GROVE, CALIFORNIA

FINAL REPORT

matrix consulting group

June 2018

Table of Contents

1. Executive Summary

The City of Pacific Grove currently allows Short-Term Rentals (STR) in residential zones in the coastal and non-coastal areas. There is currently a ballot measure being proposed that would prohibit the existence of Short-Term Rentals in the Non-Coastal residential areas. The City currently collects Transient Occupancy Tax – Residential (TOT – Residential) and License Application and Use Fees for these STRs, and the elimination of the non-coastal STRs would result in the potential loss of this revenue.

1 Methodology

The work accomplished by the Matrix Consulting Group in the analysis of the proposed revenue impacts of non-coastal short-term rentals involved reviewing the following data elements:

- **STR Licenses:** The project team reviewed the database of current coastal and non-coastal short term rental licenses.
- **TOT Residential Revenue Detail:** Data was collected for each TOT residential coastal and non-coastal STR for FY 17 and FY 18 YTD.
- **TOT Overall Revenue:** Data was collected for all TOT revenue, including residential (STR) and commercial rentals.
- **Sales Tax Revenue:** The project team reviewed sales tax revenue data for calendar year 2013 through 2017.
- **Comparative Data:** The project team conducted a comparative survey or surrounding jurisdictions relating to commercial short term rentals.

The above elements, along with staff input, were used to conduct the analysis in this report.

2 Revenue Impacts

Overall, the proposed ballot measure to ban Short-Term Rentals in the Non-Coastal Residential Zoning Districts would have a significant impact upon the direct and indirect revenue generated by the City of Pacific Grove. The report that follows analyzed the revenue impacts based upon three different scenarios, as described below:

- **Baseline Scenario:** The Baseline Scenario takes into account the potential elimination of Non-Coastal TOT Revenue and User Fee Revenue, with no offsetting proposed increases to Residential or Commercial TOT.

- **Scenario 1:** Scenario 1 takes the implications of the Baseline Scenario for Non-Coastal TOT and User Fee revenue, but suggests a revenue offset in the form of a 2% increase to both Commercial and Residential TOT.

- **Scenario 2:** Scenario 2 also utilizes the same assumptions as the Baseline Scenario for loss of Non-Coastal TOT and User Fee revenue, but suggests an offset to the potential revenue loss through a 2% increase to Commercial TOT and 5% increase to Residential TOT.

Based upon the scenarios described above, the project team calculated the overall revenue impact to the City of Pacific Grove. The following table shows the results of the revenue impact based upon the scenarios:

Category	Baseline Scenario	Scenario 1	Scenario 2
Potential Annual Revenue Impact	($1,252,054)	($546,224)	($730,950)

As the table above shows, the potential annual revenue impact for the City can range from a high of $1.25 million if there is no offset revenue measure considered to a low of $546,000 if there is a tax increase considered for Commercial and Residential TOTs.

The following chapters provide a brief background to the revenue analysis conducted, an analysis of the loss of revenue for TOT – Residential, the loss of revenue associated with User Fees, other potential sources of revenue loss, as well as a jurisdictional comparison.

2. Background

A ballot initiative has been proposed for the City of Pacific Grove's November ballot that would amend the City's General Plan and Municipal Code regarding Short Term Rentals in the Non-Coastal Zone. The ballot would result in the following:

- Ban and prohibit short term rentals in every residential zone outside the Coastal Zone
- Allow all existing, approved short-term rentals to operate for an 18-month period ending on or around May 2020, after which any STRs shall be banned outside the Coastal Zone
- Require voter approval for any change to the General Plan or the Municipal code that conflicts with this measure

As the points above outline, the primary impact of this ballot measure would be upon STRs outside the Coastal Zone in residential zoning districts. Currently, the City of Pacific Grove assesses two different charges for STRs:

1. **Taxes - Transient Occupancy Tax – Residential:** The City of Pacific Grove currently charges 10% of net revenue collected by Short-Term Rentals as the Transient Occupancy Tax. This tax is filed monthly.

2. **User Fees:** There are two sets of User Fees charged to Short-Term Rentals. The following points explain each of these fees:

    - ***Short Term License Application (New & Renewal)****:* Any new STRs or renewals of STRs require a license application that must be filed with the City's Planning Department. City staff review the application and ensure that the STR meets the City's requirements for Short-Term Rentals and add them to the database.

    - ***Short Term License Fee****:* In addition to the application fee, the City also charges a fee to license the Short-Term Rentals. The cost of the license is meant to cover the cost of enforcement of conditions associated with the Short-Term Rental program.

The City collects revenue for its Short-Term license program as it relates to these taxes and fees category. The City of Pacific Grove currently has 256 short-term licenses active within the city in the coastal and non-coastal zones. Recently, the City has imposed density limitations on short-term rentals, which will result in the reduction of a number of licenses in both the coastal and non-coastal zones. The following table shows the current

licenses by zone, by fiscal year, as well as the projected number of licenses for the City for the following four fiscal years:

License Zone	FY18 Licenses	FY19 Licenses	FY20 Licenses	FY21 Licenses	FY22 Licenses
Coastal	74	74	52	52	52
Commercial	13	13	10	10	10
Non-Coastal	169	169	143	143	143
Total	**256**	**256**	**205**	**205**	**205**

As the table above indicates, the number of Non-Coastal licenses comprises nearly 66% of the City's total current short-term rental inventory. In Fiscal Year 2020 and onwards, in conjunction with density limits, a number of licenses will sunset. With the density limitations, the Non-Coastal proportion of 66% will increase to approximately 70% of the total number of licenses. This suggests that the passage of the ballot measure would affect between 66-70% of the City's current short-term rental inventory. Therefore, the limitation of STRs from only the Coastal area will significantly impact the City's revenues as it relates to Short-Term Rentals.

The purpose of this study is to evaluate the potential impacts to revenue for the City based upon the prohibition of Short-Term Rentals within the Non-Coastal Residential Zoning Districts. The following sections discuss the impact for all three revenue sources, as well as a comparative analysis, and any additional secondary or potential fiscal impacts to the City's revenue stream.

It is important to note that no societal or community impacts were evaluated in this analysis.

3. Transit Occupancy Tax (TOT) Revenue Analysis

The City of Pacific Grove collects a Residential Transient Occupancy Tax (TOT) for all Short-Term Rentals. The tax is calculated as 10% of the net revenue collected monthly by each Short-Term Rental property owner and is submitted to the City on a monthly basis for as long as the Short-Term License is active for the property. The project team gathered information regarding the Residential TOT and the impact to the revenue based upon the elimination of Non-Coastal Short-Term Rentals.

The TOT Revenue analysis was conducted based upon current TOT estimates as well as a five-year projection of TOT Revenues. The following subsections discuss the impacts of the elimination of the non-coastal STRs upon the Residential TOT revenue for the City.

1 TOT RESIDENTIAL – CURRENT REVENUE ANALYSIS

The following table shows the trend of Residential TOT collected by the city for the last five years:

Fiscal Year	Residential TOT Revenue – Costal & Non-Coastal
FY 13-14	$453,048
FY 14-15	$707,468
FY 15-16	$992,986
FY 16-17	$1,230,429
FY 17-18 Annualized[1]	$1,774,859

As the table above indicates, the revenue associated with overall Residential TOT has increased by approximately $1.1 million over the last five years. Based upon FY17-18 projected revenue, Residential TOT Revenue is expected to increase by 44% between FY16-17 and FY17-18. Therefore, there is potential for significant growth as the occupancy rates of the Short-Term Rentals, their nightly rates, and other factors continue to increase.

The ballot measure being proposed does not intend to eliminate all Short-Term Rentals in the City, but only those short-term rentals that are outside the Coastal Residential Zoning District. Therefore, the project team collected revenue information for the last compete fiscal year (FY16-17) and FY17-18 YTD regarding all STRs currently active within the City. The projected revenue was calculated by averaging the revenue per month and annualizing the revenue. As the FY17-18 YTD revenue includes approximately 10 months (83%) of annual data, it is reasonable to make an accurate projection. The following table shows the total revenue associated with Non-Coastal properties:

[1] The FY17-18 Projected Revenue is based upon FY17-18 year-to-date data for revenues collected July 1, 2017 through May 30, 2018. The 10-month data was used to develop a monthly average, which was multiplied by 12 to annualize the revenue amount.

Fiscal Year	Non-Coastal Residential Zone TOT Revenue
FY 16-17	$709,255
FY 17-18 Annualized[2]	$1,157,007
Average Potential Revenue Impact	**$933,131**

As the table above indicates, there is a substantial amount of revenue associated with Non-Coastal Residential Zone STRs. On average, the potential impact to the City's Residential TOT revenue would be a decline of approximately $933,000.

Based upon the total revenue associated with Residential TOT, the Non-Coastal Residential Zone STRs account for approximately 65% of the revenue. The 65% of the revenue is consistent with the overall number of licenses, as approximately 66% of the licenses are related to these areas.

2 TOT RESIDENTIAL – PROJECTED REVENUE ANALYSIS

The current TOT Residential revenue analysis looks at the current and past year for indication of potential lost revenue. There are a couple of other economic and ballot measures that impact the average annual impact of the loss of Residential TOT Revenue associated with Non-Coastal STRs. These factors include the following:

- **Economic Growth:** 1% Annual Economic increase due to the average CPI for the Peninsula area between FY19-FY22.
- **Density Limits:** Decrease in number of short-term rental licenses based upon the density requirements, representing a natural decline in revenue.
- **TOT Increases:** Potential increases to Transient Occupancy Taxes (2% for Commercial and STR, or 2% for Commercial and 5% for STR). For simplicity purposes, it has been assumed the rate increases would take place at the beginning of FY20.

Therefore, the project team conducted a revenue analysis incorporating the above elements. It is important to note that all revenue projections are based upon static average rental rates and occupancy rates for Short-Term Rentals. The projections do not take into account any changes to the TOT revenue due to higher average nightly rates or a larger or lower rate of nights rented.

The projected revenue analysis is split into three scenarios – Baseline Scenario, Scenario 1, and Scenario 2. The following points discuss each of the scenarios:

[2] The FY17-18 Projected Revenue is based upon FY17-18 year-to-date data for revenues collected July 1, 2017 through May 30, 2018. The 10-month data was used to develop a monthly average, which was multiplied by 12 to annualize the revenue amount.

- **Baseline Scenario:** The Baseline projection scenario only considers the 1% Economic Factor increases and decline in number of short-term rental licenses due to the density requirements. These are the fixed variables in the analysis and will occur regardless of any of the ballot or revenue measures; hence, the baseline scenario. This scenario will be used to evaluate the impact of the other two scenarios.

- **Scenario 1:** incorporates all of the assumptions of the baseline scenario (1% increase and decrease in number of STR licenses), but it also considers the 2% increase to TOT for Commercial and Residential revenue streams.

- **Scenario 2:** incorporates all of the assumptions of the baseline scenario (1% increase and decrease in number of STR licenses), but it also considers the 2% increase to TOT for Commercial properties and a 5% increase to TOT for Residential properties.

As the points above illustrate, there are only a few nuanced differences between the Scenarios. The following subsections detail the revenue projections calculated for each of the three scenarios outlined.

1 Baseline Scenario

The Baseline Scenario looks at the impact of economic growth of 1% over the next five years, as well as the impact of the reduction of STRs due to density requirements. The following table shows the results of the TOT revenue projection analysis based upon the Baseline Projection Scenario:

	Baseline Scenario				
Revenue Category	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**
TOT - Residential - Coastal[3]	$624,030	$508,889	$513,978	$519,118	$524,309
TOT - Residential - Non-Coastal	$1,168,578	$1,107,434	$1,118,509	$1,129,694	$1,140,991
TOT - Commercial	$4,063,230	$4,103,862	$4,144,901	$4,186,350	$4,228,213
Total	**$5,855,837**	**$5,720,186**	**$5,777,387**	**$5,835,161**	**$5,893,513**
Potential Loss			($1,118,509)	($1,129,694)	($1,140,991)
Net Revenue	**$5,855,837**	**$5,720,186**	**$4,658,879**	**$4,705,468**	**$4,752,522**

As the table above indicates, the density decline is felt in FY20 with the sun-setting of existing properties within the City.

Additionally, if the proposed Non-Coastal STR ballot measure were to pass it would allow for Non-Coastal STRs to operate until May 2020, which would mean that the first year

[3] The TOT-Residential Coastal category also includes revenue collected for TOT-Residential properties licensed in Commercial Zones.

there would be a potential loss in revenue would be FY21. In FY21, the projected annual revenue loss for TOT- Residential – Non-Coastal would be approximately $1.1 million, which is approximately $185,000 higher than the projected loss based upon the FY18 calculation ($933k) in the previous section. Therefore, if the project team were to average the TOT-Residential Non-Coastal revenue from FY18-FY22, the average would be $1.1 million.

2 Scenario 1

The project team utilized the Baseline Scenario and then incorporated a 2% increase to all TOT categories into the Residential TOT revenue projection analysis. The following table shows the results of Scenario 1:

	Scenario 1				
Revenue Category	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**
TOT - Residential – Coastal[3]	$624,030	$610,667	$616,774	$622,941	$629,171
TOT - Residential - Non-Coastal	$1,168,578	$1,328,921	$1,342,210	$1,355,632	$1,369,189
TOT - Commercial	$4,063,230	$4,924,635	$4,973,881	$5,023,620	$5,073,856
Total	**$5,855,837**	**$6,864,223**	**$6,932,865**	**$7,002,194**	**$7,072,216**
Potential Loss			($1,342,210)	($1,355,632)	($1,369,189)
Net Revenue	**$5,855,837**	**$6,864,223**	**$5,590,655**	**$5,646,561**	**$5,703,027**

As the table above indicates, the results for Scenario 1 differ from the baseline scenario in that the decline in number of short-term licenses negatively affects the Coastal Zone, but the increase in TOT Tax offsets the loss of the Non-Coastal Zone properties.

The impact of the proposed Non-Coastal STR ballot measure if passed, would be in FY21. Based upon the analysis conducted, the City of Pacific Grove would be projected to lose approximately $1.3 million in Non-Coastal Residential TOT. The potential $1.3 million loss represents an increase of approximately $409,000 based upon the FY18 calculation ($933k) in the previous section. The five year current and projected average for TOT-Residential Non-Coastal (FY18-FY22) is $1.35 million.

3 Scenario 2

The last scenario that the project team evaluated incorporates all elements of the Baseline Scenario and Scenario 1, with one key difference – instead of the 2% increase to all TOT categories, the 2% increase is only to Commercial TOT, and there is a 5% increase to Residential TOT categories. The following table shows the TOT Revenue projections based upon the results of Scenario 2:

[3] The TOT-Residential Coastal category also includes revenue collected for TOT-Residential properties licensed in Commercial Zones.

Revenue Category	Scenario 2 FY19	FY20	FY21	FY22	FY23
TOT - Residential - Coastal[3]	$624,030	$763,334	$770,967	$778,677	$786,463
TOT - Residential - Non-Coastal	$1,168,578	$1,661,151	$1,677,763	$1,694,540	$1,711,486
TOT – Commercial	$4,063,230	$4,924,635	$4,973,881	$5,023,620	$5,073,856
Total	**$5,855,837**	**$7,349,120**	**$7,422,611**	**$7,496,837**	**$7,571,805**
Potential Loss			($1,677,763)	($1,694,540)	($1,711,486)
Net Revenue	**$5,855,837**	**$7,349,120**	**$5,744,848**	**$5,802,297**	**$5,860,320**

The results of Scenario 2 differ from Scenario 1, as the increase in TOT from 10% to 15% helps offset the loss of the properties due to the density limitations.

The impact of the proposed Non-Coastal STR ballot measure in FY21, is that the potential revenue loss for Residential Non-Coastal TOT is approximately $1.7 million. The $1.7 million represents an increase of $745,000 from the FY18 calculation ($933k) Residential TOT Non-Coastal Revenue. Similar to the other scenarios a five year average of current and future years (FY18-FY22) was conducted, which results in $1.7 million in lost revenue starting in FY21.

4 Impacts to Residential – Coastal and Commercial TOT

Based upon the TOT Revenue projections, under all three scenarios there is an impact to the City if the proposed Non-Coastal STR ballot measure passes. As the impact of the proposed Non-Coastal STR ballot measure does not take effect until FY21, the project team conducted an analysis of total revenue collected by the City for the two remaining categories for FY21. The purpose of this calculation is to calculate the projected increases in revenue due to the tax increases being considered. The information in this section will be utilized in the overall revenue impact analysis for the Non-Coastal Residential STRs, as a possible way to mitigate the loss of revenue associated with the elimination of those rental properties. The following table summarizes the total revenue projected under each of the three scenarios for FY21:

Revenue Category	Baseline FY21 Revenue	Scenario 1 FY21 Revenue	Scenario 2 FY21 Revenue
TOT - Residential - Coastal[3]	$513,978	$616,774	$770,967
TOT - Commercial	$4,144,901	$4,973,881	$4,973,881
Total Revenue	**$4,658,879**	**$5,590,655**	**$5,744,848**

Based upon this information in the table, the project team calculated the difference between the baseline and Scenario 1, and the difference in total revenue between

[3] The TOT-Residential Coastal category also includes revenue collected for TOT-Residential properties licensed in Commercial Zones.

Baseline and Scenario 2. The following table shows the impact of the considered TOT increases based upon Scenario 1 or Scenario 2:

Category	Baseline to Scenario 1	Baseline to Scenario 2
Change in Revenue	$931,776	$1,085,969

As the table above indicates, there is an increase in revenue of $932,000 between the Baseline and Scenario 1, and an increase of $1,086,000 between Baseline and Scenario 2.

3 SUMMARY OF TOT REVENUE ANALYSIS

The TOT Revenue analysis revealed that there are several intricacies that must be considered when estimating the annual revenue loss associated with the elimination of 66% of the city's current short-term licenses. As the analysis indicated, the annual potential revenue loss varies dramatically based upon the assumptions utilized.

The following table shows the Residential TOT revenue for Non-Coastal licenses for all of the fiscal years evaluated in this section, by scenario:

Fiscal Year	Baseline Scenario	Scenario 1	Scenario 2
FY 16-17	$709,255	$709,255	$709,255
FY 17-18 Annualized[2]	$1,157,007	$1,157,007	$1,157,007
FY 18-19 Projected	$1,168,578	$1,168,578	$1,168,578
FY 19-20 Projected	$1,107,434	$1,328,921	$1,661,151
FY 20-21 Projected	$1,118,509	$1,342,210	$1,677,763
FY 21-22 Projected	$1,129,694	$1,355,632	$1,694,540
FY 22-23 Projected	$1,140,991	$1,369,189	$1,711,486
OVERALL AVERAGE POTENTIAL REVENUE IMPACT	**$1,075,924**	**$1,204,399**	**$1,397,111**
FY17-FY21 AVERAGE POTENTIAL REVENUE IMPACT	**$1,052,157**	**$1,141,194**	**$1,274,751**
FY21-FY23 AVERAGE POTENTIAL REVENUE IMPACT	**$1,129,731**	**$1,355,677**	**$1,694,596**

As the table above indicates, if an overall average is taken for all seven years, FY 17 through FY 23, the annual potential revenue impact varies between $1.1-$1.4 million. If a five year average is taken, FY 17 through FY 21, the annual impact varies from $1.0-$1.3 million. If the average is calculated based upon when the proposed Non-Coastal STR ballot measure would be affected, FY 21 through FY 23, the average annual potential revenue impact varies from $1.1-$1.7 million.

[2] The FY17-18 Projected Revenue is based upon FY17-18 year-to-date data for revenues collected July 1, 2017 through May 30, 2018. The 10-month data was used to develop a monthly average, which was multiplied by 12 to annualize the revenue amount.

Therefore, it is appropriate to estimate that the average revenue impact for the Non-Coastal Residential STR is between $1.0-$1.7 million. If the revenue measures for Scenario 1 or Scenario 2 are put into effect, the potential revenue loss would be offset by an increase of approximately $932,000-$1,086,000, which is less than the annual loss due to the Non-Coastal STR licenses.

The total revenue associated with the General Fund is between $22 - $23 million. The $1.0-$1.7 million loss in revenue for Residential STRs in the Non-Coastal Zone represents approximately 5-8% of the City's General Fund related revenue, and is a significant impact for the City of Pacific Grove.

4. User Fee Revenue Analysis

In addition to the Residential TOT Tax revenue, the City of Pacific Grove also collects user fees in the form of new and renewal applications for the Short-Term Rentals as well as the Annual License Fee for Short-Term Rentals. Therefore, the exclusion of STRs in the non-coastal residential zones would also affect User Fee Revenue.

The project team had worked with the City of Pacific Grove staff in the Community Development Department regarding the evaluation of the full cost of the User Fees. The following table shows the name of the relevant user fee, the annual volume, the current fee, the proposed full cost for each of these services, the revenue calculated at current fee, and the revenue calculated at full cost.

Fee Title	FY18 Annual Volume	Current Fee	Full Cost	Revenue at Current Fee	Revenue at Full Cost
STR License Renewal Application	169	$160	$223	$27,040	$37,687
STR Annual License Fee	169	$1,035	$599	$174,915	$101,231
TOTAL				**$201,955**	**$138,918**

As the table above shows, based upon the full cost fees, the City is projected to have an annual revenue impact of approximately $139,000 as it relates to Short-Term Rentals in the Non-Coastal residential areas.

It is important to note that $139,000 in revenue impact is based upon current number of active licenses. The project team utilized the number of licenses projected from the beginning of this analysis through FY23 and the full cost fee to project the annual revenue associated with Non-Coastal Residential Short-Term License User Fees. It is important to note that for the full cost fee, the project team applied the economic factor of 1% increase to account for potential increases to user fees through the fiscal years. The following table shows the revenue calculations for the Non-Coastal Short-Term License User fees based upon the number of licenses projected for FY19, 20, 21, 22, and 23, as well as updated renewal and annual license fees:

Fee Title	FY19 Revenue	FY20 Revenue	FY21 Revenue	FY22 Revenue	FY23 Revenue
STR License Renewal Application	$38,064	$32,530	$32,855	$33,184	$33,516
STR Annual License Fee	$102,243	$87,379	$88,252	$89,135	$90,026
TOTAL	**$140,307**	**$119,909**	**$121,108**	**$122,319**	**$123,542**

As the table above indicates, the loss in license revenue for FY19 is significant at $140,000; however, starting in FY20 with the decline in number of licenses for Non-Coastal STRs, the impact to license revenues varies from $120,000 to $123,500.

The following table calculates the average impact on the STR Non-Costal User Fee License Revenue for the current fiscal year and five projected fiscal years:

Fiscal Year	Non-Coastal Residential Zone – TOT Revenue
FY 17-18 Projected	$138,918
FY 18-19 Projected	$140,307
FY 19-20 Projected	$119,909
FY 20-21 Projected	$121,108
FY 21-22 Projected	$122,319
FY 22-23 Projected	$123,542
OVERALL AVERAGE POTENTIAL REVENUE IMPACT	**$127,684**
FY17-FY21 AVERAGE POTENTIAL REVENUE IMPACT	**$128,512**
FY21-FY23 AVERAGE POTENTIAL REVENUE IMPACT	**$122,323**

As the table indicates, the average impact to the revenue varies between $122,000 to $128,500 depending upon the average utilized. If the average is utilized for FY21-23 when the proposed Non-Coastal STR ballot measure would go into effect, the annual impact or potential loss of revenue would be approximately $122,323.

5. Overall Revenue Analysis

Based upon the two components of charges – taxes and user fees, there will be a substantial impact to the General Fund's revenue with the elimination of Non-Coastal STRs in the City. The project team calculated the potential revenue impact for the City based upon the following three components:

- **TOT Residential – Non-Coastal Elimination:** This category represents the average loss of revenue associated with Residential TOT for Non-Coastal properties based upon FY21-FY23, as that is when the proposed ballot measure would go into effect, if passed. This number is represented as a negative value to represent the loss in potential revenue for the City.

- **User Fees:** This category represents the average loss of revenue associated with the renewal application and license fees associated with Non-Coastal STRs. Similar to the TOT-Residential revenue, the value used is an average of the loss in User Fee Revenue for FY21-23, as that is when the proposed ballot measure would go into effect if passed. The number in this category is also represented as a negative value to signify the loss in potential revenue for the City.

- **TOT Potential Tax Increase:** This category represents the potential revenue increase for the City due to TOT tax increases being considered. Under the baseline scenario there is no tax increase, Scenario 1 there is a 2% tax increase to all TOT categories, and Scenario 2, there is a 2% increase for Commercial TOT, and 5% increase for Residential TOT. The number for this category is based upon the impact to TOT-Commercial and TOT-Residential Coastal and is represented as a positive value, as it signifies potential revenue increase for the City.

Based upon the three components, the following table summarizes the overall annual revenue impact for the City.

Category	Baseline Scenario	Scenario 1	Scenario 2
TOT Residential – Non-Coastal Elimination	($1,129,731)	($1,355,677)	($1,694,596)
User Fees	($122,323)	($122,323)	($122,323)
TOT – Potential Tax Increase	$0	$931,776	$1,085,969
Total Potential Revenue Impact	**($1,252,054)**	**($546,224)**	**($730,950)**

As the table above indicates, the annual impact to the City of Pacific Grove depends upon the scenario, ranging from a high of $1.25 million to a low of $546,000. If the City does not pass any revenue increase measures to offset the elimination of Non-Coastal STRs, the annual revenue loss for the City would be $1.25 million; however, if the City is able to consider a revenue measure such as a 2% increase to Commercial and Residential TOT, the potential revenue loss due to elimination of Non-Coastal STRs would be $546,000 annually.

6. Other Potential Revenue Analysis

The idea behind a Short-Term Rental is for any private property owner to rent their property for less than 30 days at a time and generate revenue based upon these rentals. These rentals bring tourists into town that may prefer the homey atmosphere relative to bed and breakfasts or hotels and motels around the Peninsula.

While the primary focus of this analysis is on the direct revenue impact to the City of Pacific Grove, there are some secondary impacts related to the exclusion of STRs within the City. The following points outline and discuss these impacts:

- **Reduction in Sales Tax Revenue:** If tourists stay within the City at a STR in the residential zone there is a greater likelihood for those tourists to partake in local restaurants or shop at local shops generating additional sales tax revenue for the City. However, if they stay outside City limits, there is a direct negative correlation to the likelihood of those same tourists partaking in the City of Pacific's Grove's restaurants or shops. The following table shows by major business category the total sales tax revenue[4] collected for the four most recent fiscal years:

Business Category	FY15	FY16	FY17	FY18 YTD[5]
Autos Transportation	$357,299	$355,567	$363,687	$374,080
Building & Construction	$486,015	$485,108	$515,911	$537,220
Business & Industry	$247,294	$248,321	$260,886	$270,274
Food & Drugs	$416,204	$429,011	$423,009	$434,812
Fuel & Service Stations	$302,737	$235,237	$229,830	$213,677
General Consumer Goods	$557,001	$537,476	$564,645	$565,807
Restaurants & Hotels	$984,010	$1,005,742	$1,008,911	$1,031,627
Transfers & Unidentified	$182	$440	$942	$31
Total	**$3,350,742**	**$3,296,902**	**$3,367,821**	**$3,427,528**

As the table above indicates, there is an overall increase between FY18 and FY14 in sales tax revenue by approximately $76,786. Certain categories have seen an increase such as Building & Construction (11% increase over 4 years), Business & Industry (9% increase over 4 years), while other categories have seen a significant decline such as Fuel & Service Stations (29% decline over 4 years).

However, the information in this table cannot be used to project or predict the impact on sales tax revenue associated with the elimination of Non-Coastal Residential Zone STRs. This is because it is extremely difficult from this data to

[4] Sales tax revenue for all fiscal years reflects transactions at the point of sale, which may account for potential differences in revenue recordings.
[5] FY18 YTD reflect data collected until the month of May and does not include June.

extract the proportion of sales tax for each category or each relevant category that is directly attributable to a Non-Coastal STR residential renter. For example, the Restaurants & Hotels sales tax revenue category represents sales tax that is associated with Pacific Grove residents, Pacific Grove non-residents, employees, surrounding city tourists or peninsula residents, day-trip visitors, business trip visitors, hotel tourists, and STR tourists. Therefore, it is impossible to reasonably estimate the proportion of sales tax that would be directly associated with STR tourists.

The only reasonable inference that can be made is that the elimination of STRs in the Non-Residential Coastal Zone will have some type of impact upon sales tax revenue.

- **Increased Enforcement Costs:** With the limitation of STRs to the Coastal Zones within the City, there is an increased cost associated with enforcing those Short-Term rentals that are currently allowable but would be prohibited under the proposed ballot measure. Many cities usually contract with third party agencies to conduct STR enforcement; however, those cities typically will have a city-wide ban simplifying the enforcement process. Requiring either City staff or third party staff to ensure that there are no illegal operations within certain parts of the City will require either significant staff time or direct contract costs.

These two points illustrate that the proposed ballot measure not only results in additional revenue reduction for the General Fund beyond the $1.1 million calculated, but there might also be a correlated increase in cost, either due to needing additional staff resources in code enforcement or contracting with a third party vendor to ensure compliance with City ordinances and regulations.

7. Comparative STR Analysis

The last part of the potential impacts of limiting STRs to the Coastal Zones in the City of Pacific Grove is related to the comparison of Short-Term Rental policies in other neighboring cities. The following table provides an overview by jurisdiction regarding their policies on Short-Term Rentals and if they are allowed:

Jurisdiction	Short-Term Rental Policies	# of STRs
City of Monterey	All STRs are prohibited	N / A
City of Carmel	All Residential STRs are prohibited; Commercial / Multi-family are allowed	N / A
City of Seaside	Allow a fixed number of STRs. Limited to 50% of one block as maximum density for STRs.	Max = 200; goes into effect starting July 1, 2018.
City of Marina	Still drafting an ordinance	N / A
Monterey County	Still drafting an ordinance	N / A

As the table above indicates, other than the City of Seaside and Carmel, there are no short-term rentals being allowed in other jurisdictions. The City of Marina and Monterey County are in the process of adopting ordinances that would enable Short-Term Rentals, with some density requirements, but no maximum number of STRs, as they are still in the initial phases of drafting and adopting ordinances.

The comparative survey analysis reveals that Pacific Grove is one of the few cities that offers Short-Term Rentals in the area, representing a high demand as there is limited supply; hence the high TOT revenues.