

Review of 2020 Vacation Rental Ordinance

In October 2019, the City asked the Chamber to review a draft Vacation Rental ordinance ("2019 ordinance") that had been previously reviewed by the Planning Commission, but not yet sent to the City Council. In early October 2019, the Governmental Affairs Committee (GAC) reviewed that ordinance and discussed the issues around VRs (also referred to as Short Term Rentals). In mid-October of 2019, the Chamber Board approved a position paper on that ordinance (attached), and in early November of 2019, the Chamber forwarded its recommendations on that issue to the City. Those recommendations, and the original ordinance, were used as resources for a citizens committee to draft up a revised VR ordinance. That committee completed its deliberations earlier this year, and its findings and recommendation have been drafted into a revised ordinance ("2020 ordinance") that is now under review by the Planning Commission. The Planning Commission is expected to complete its review and recommendations on September 1st, and the PC recommendation is expected to be presented to the Morro Bay City Council in late September.

The purpose of the Chamber's re-review of this matter is to consider its recommendations in light of the 2020 ordinance, consider new findings and recommendation from the VR Committee and Planning Commission, and to re-affirm its original position, or to modify that position, based on the new evidence and findings. In reviewing this, we provide great respect and deference to the Planning Commission and the VR Committee who have spent considerable time and heard considerable testimony. And, we recognize that the Chamber's responsibility is to review it from a business and regulatory perspective. Also, we are not reviewing this matter *de novo*, and respect the work and recommendation of the previous GAC and Board in making its initial recommendations.

The Chamber's role in commenting on this issue is to represent the business perspective and to lend voice to that interest. As stated in the Chamber's comments on the 2019 ordinance, items of interest to the business community are diverse. First, there is an interest in increasing tourism-based businesses, and appealing to a wide variety of visitors. A goal of the TBID is to get more overnight stays (as opposed to day trips and visits), and increasing the supply and improving the quality and diversity of lodging is believed to be important. VRs are the most dynamic and growing part of the local lodging inventory and now represent 15 percent of all Transient Occupancy Tax (TOT) revenues.

Second, business has an interest in the stability and sustainability of consumer demand. Having a stable year-round population in the community's neighborhoods is ideal to sustain that demand. When second homes are rented out as VRs, they provide for consumer demand from those second homes that would not otherwise occur. By way of example, 175 VRs rented out for 50 percent of the year would generate \$5,500,000 to \$6,250,000 in local sales to support local businesses, assuming \$50 per day of food and entertainment expenditures per visitor.

Third, stable neighborhoods attract and retain workers, business managers and business owners. Our businesses need housing for our workforce. Having a neighborhood of strangers or transients does not encourage social cohesion and stability. High turnover is an issue in retail, restaurants and the hospitality industry in general and a stable and growing supply of owner occupied and long-term rental housing is important.

Finally, business relies on an adequately funded government to provide services. Monies lost from decreased VRs would need to be replaced, or added cuts made. VRs represent \$550,000 to \$600,000 per year in TOT and probably another \$100,000 to \$125,000 per year in sales taxes and other revenues.

It is also believed that from a business perspective, regulations should flow from a legitimate government interest in addressing one or more of the above issues or concerns, and not be regulation for regulation's sake, or be a citywide solution to a very local or isolated problem. As we reviewed the 2020 ordinance, we considered and discussed what problem or problems that we are trying to solve, to wit:

1. **Overcrowding?** Is this a matter that the current regulations are permitting too many people into too small of a house, and that the inadequate parking and the overcrowding is causing an impact that is substantially different than would occur from a full time renter or owner, or a second home?
2. **Inadequate Enforcement?** Even without the VR ordinance, there is no lack of State and Local regulations on noise, overcrowding, trash management, etc. Is there a lack of enforcement and oversight?
3. **Neighborhood Cohesion and Stabilization?** Is the concentration in a particular neighborhood so high it has become a neighborhood of strangers and transients rather one of neighbors who know each other and look after one another? Given the number of second homes, what is the tipping point? And, is it better to concentrate these uses together or in a preferred neighborhood? Ironically, spreading/spacing these uses out uniformly maximizes their interface with non-VR units, and clustering them together minimizes the number of residents exposed.
4. **Housing Availability?** Is housing that might otherwise be available to the workforce not available to the resident workforce because it is being used for vacation rentals? What is a reasonable fraction of the housing stock that could be used for VRs? What types of dwelling units are appropriate for VRs and which ones are not?
5. **Support for the Tourism Economy?** Second homes, hotels, motels, hosted VRs (i.e. AirBnB), and non-hosted VRs constitute different lodging choices for our visitors. This fact is important since there has been very little growth in the number of hotel and motel rooms over the last ten years, since the hotel/motel stock is not well suited to accommodating an entire family, since our visitors are increasingly sophisticated in their accommodation needs, and since they continually seek new (and better) experiences when they return. VRs represent the most dynamic growth element in the local lodging industry and now represent more than 15 percent of local lodging receipts (compared to 10 percent countywide), up from less than five percent just ten years ago. VRs directly delivered \$550,000 to the General Fund and \$200,000 to the TBID in 2019. Longer term success from implementing

recommendations in the City's Tourism Destination Strategy will come from meeting the lodging consumer's preferences, including a good representation of lodging choices, including VRs.

6. **Is it a Neighborhood Problem or a Citywide Problem?** The effects of an overcrowded or poorly managed VR are not citywide. They are limited to the immediate vicinity of the offending unit. Parking, lack of solid waste management and overcrowding impact the neighborhood for an area up to 3-4 houses away (125-150 feet). Hence the discussion of "separation" of these uses so the impact of an offensive unit are not compounded by the impacts of another offensive unit. Similarly, neighborhood character and cohesion are local phenomena and do not extend citywide. Housing availability and supply and city financial impacts are citywide issues. The issue is also concentrated in a few neighborhoods as represented graphically in the map of permitted VRs. Some tracts have a relatively even distribution while others are more concentrated (Beach Tract in particular).

The Chamber's initial response to these questions is shown in the 2019 recommendations (attached). The recommendations and comments on the 2020 ordinance are as follows. Notable changes or important comments are highlighted in ***bold italic text***:

1. That the City continue with strict enforcement of the unlicensed vacation rentals. ***The Chamber acknowledges that there are units that are not professionally managed, and some that are poorly managed. These can be a nuisance to the neighbors. VR fees should be set at a level that provides for thorough licensing evaluation each year and at least one inspection during the year. VR TOT revenues also provide a source of revenue for enforcement.***
2. The ordinance should set density limits and limits on concentration that will protect existing quality VRs while not compromising the integrity of our neighborhoods. ***In single family residential zones other than the Beach Tract, the percentage of licensed VRs should not exceed five percent (5%) of the total number of units (Citywide average). In the Beach Tract where the existing percentage is 11.8%, the percentage should not exceed 10 percent, recognizing that this area is already substantially committed to VRs.*** The Chamber opined in its previous correspondence that the VR ordinance should not be used to set the clock back or to "put the toothpaste back in the tube". Diligent regulation and enforcement will suffice to deal with neighborhood conflicts. ***In order to implement this limitation, there should be a dual standard of number of units in a defined housing tract, and a separation requirement of 175 feet between units (including rights of way, private property, etc.) In the Beach Tract, this separation should be 100 feet.*** Establishment of licensed VRs at this level would require the reduction, over time, of units in the Beach Tract and Island Tract. A greater concentration may be provided by changing the zoning of certain concentrated areas to a commercial designation or a special residential overlay.
3. Complaints and land use compatibility from VRs in residential neighborhoods are recognized as legitimate concerns. State and local regulations already adequately cover trash

management, noise, overcrowding and other issues. Better signage and clearer complaint protocols will give neighbors a recourse. Do not use the VR ordinance to re-legislate these issues. Spreading VRs out uniformly will increase the number of residents exposed to any nuisances. ***Enforcement is what is lacking, and the funding from increased VR licensing and VR revenues can address that.***

4. One area for consideration is the occupancy limits. ***The Chamber recommends that these occupancy limits be set at a level equal to the standards for longer term residential rental units, 1 person per 75 square footage of legal “bedroom” space, or the amount of onsite and onstreet parking (with one space allowed per public street frontage) at a rate of 1 space per two allowed persons. Maximum occupancy under any circumstances would be limited to 10 persons per unit (which would require at least four bedrooms of 150 square feet each and three onsite parking spaces) for non-hosted VRs and four persons for hosted VRs. These occupancy limits would be written into the VR permit and all VR rental agreements.***
5. One of the trickiest and most controversial issues is the treatment of non-conforming uses, especially uses or buildings that are made that way by amendments to the zoning code that occurred after a property is purchased and put to use. While there is a desire to “waive a wand” to remove non-conforming uses, the City’s zoning regulations have always allowed non-conforming uses to continue, but not to allow their expansion or another action that would increase the severity of non-conforming condition. Chapter 17.56 of the Municipal Code provides for the continuation of non-conforming uses, except where that use has ceased to operate for 6 months or more. Otherwise the uses may continue, unless abandoned. This non-conforming use standard should be applied to VRs as well.

Based on the standard set for the treatment of other non-conforming uses in Chapter 17.56 of the Municipal Code referenced above, amortization and elimination of uses that conflict with the standards should be by attrition, and not by a lottery or other random or arbitrary mechanism. Uses that conflict with the separation requirement should be treated as legal non-conforming uses, as is the case for other uses, and as proposed in the draft Zoning Code Update.

The prohibition against transfer from a seller to a buyer in the 2020 ordinance is already a substantial modification of VR permit rights when compared to existing VR regulations and those in the existing and proposed Zoning Ordinance Update. Normal turnover in licensing and restrictions on passing the VR licenses from owner to owner will address this issue over time, and the Chamber believes that this method of adjusting the concentration should be the sole method of dealing with VRs that may become non-conforming. Further, the “lottery” will create an unbudgeted and unplanned budget shortfall. Based on the number of units that City staff estimates could be eliminated in the Beach Tract alone (25), the loss of TOT could be \$200,000 to \$225,000 per year. The Chamber is not aware of any contingency plans to cover this loss of revenue. ***Therefore, unless and until the City has a plan to compensate for the potential loss of TOT revenue (approximately equal to 1.0 to 1.50 sworn police officers) that may result from a blind random lottery, this proposed feature of the***

ordinance should not be implemented. After careful consideration of the lottery, it appears that it may be a free-for-all. It may also result in a significant decline in General Fund revenues. The City Council can reconsider this in the future, if necessary. If it does consider it in the future, TOT productivity, citations, and VR quality and location should be taken into consideration.

6. Vacation or second homes that are not rented and are only used by family members are not affected by this regulation, as is now the case.
7. *The fee and licensing requirements should be increased to a level that allows for a thorough inspection and licensing or re-licensing, and at least one inspection during the year.*
8. State and local regulations already adequately cover trash management, noise and over-crowding. Do not use the VR ordinance to re-legislate these issues. *Enforcement is what is lacking, and the funding from increased VR revenues can facilitate that.*
9. VRs should not be permitted in multifamily zones or for attached units of five or more units in single family zones. Multifamily units, small attached single-family units and ADUs constitute an important source of workforce housing. They are often smaller units with less off-street parking.

A Policy Position on Short Term Vacation Rental Policies

Morro Bay Chamber of Commerce

Introduction

The City of Morro Bay is considering a Planning Commission-recommended Zoning Ordinance amendment that would establish new requirements for vacation rentals. The matter has been under an urgency ordinance (now expired), and the long-awaited Zoning Ordinance amendment that was to address this issue is on a distant horizon. Consequently, the City Council members have been reaching out to the public, and to the Chamber of Commerce, to solicit recommendations. The Chamber's Governmental Affairs Committee (GAC) heard a presentation from Mayor John Headding about the status of the matter and to solicit input. The City has since also formed an advisory group of community members and vacation rental (VR) industry representatives.

The GAC discussed the matter at its October meeting. CEO Erica Crawford attended a community workshop that was held by the City and she also convened a meeting of Chamber members from the hospitality industry, including representatives from TBID (Joan Solu and Charlie Yates), Beach and Bay Getaways (Nick and Maggie Juren), and Rockstar properties (Ian Starkie) to augment the GAC's discussion. Beach and Bay Getaways and Rockstar represent over 52 percent (130 units) of the current local supply of 250 licensed units. The attendees provided written and verbal input on the matter. The Chamber Board considered the matter at its October Board meeting and provided general guidance to the GAC co-chairs and staff on which to finalize this recommendation to the City.

Background

The matter has been reviewed for more than six years according to those involved. The Planning Commission has conducted hearings on this matter and has provided its written recommendations to the City Council. The City Council is now interested in formally considering those recommendations, preceded by workshops and recommendations from the Chamber, a City- appointed working group, and others.

It is the Chamber's understanding that part of the Council's motivation is that Vacation Rentals are now subject to TBID assessment, and Council may wish to start collecting both this assessment and TOT from unlicensed Vacation Rentals, as well as expanding the collection to "hosted" rentals (see below). It also stands to reason that the City Council wants to fast-track this item, and not wait for the delayed GP/LCP update as originally proposed. The GAC and Chamber Board and staff believe that the matter has received adequate public exposure and education and that it is ripe for action. Our goal is to provide specific comments on this matter from the business community's standpoint, and to move it to the City Council for a decision that makes business sense and responsibly represents the interests of our 300 members.

The Business Perspective

Items of interest to the business community are diverse. First, there is an interest in increasing tourism-based businesses. A goal of the TBID is to get more overnight stays (as opposed to day trips and visits), and increasing both the supply of all lodging and the quality and diversity of lodging is believed to be important. Second, business has an interest in the stability and sustainability of consumer demand. A stable year-round population is important. Stable neighborhoods attract and retain workers, business managers and business owners. Third, our businesses need housing for our workforce. High turnover is an issue in retail, restaurants and hospitality and a stable and growing supply of owned and rented housing is important. Finally, business relies on an adequately funded government to provide services.

To these ends, the Morro Bay Chamber of Commerce recommends the following:

1. That the City continue with strict enforcement of the unlicensed vacation rentals.
2. That it set density limits and limits on concentration that will protect existing quality VRs while not compromising the integrity of our neighborhoods. In residential zones, the percentage of licensed **VRs should not exceed five percent (5%) of the total number of units**. In order to implement this limitation, there should be a dual standard of number of units in a defined housing tract, and a **separation requirement of 200 feet between units**. Establishment of licensed VRs at this level would require the reduction, over time, of units in the Beach Tract and Island Tract, while permitting increases in concentration in the other residential neighborhoods and an increase of 50-75 units overall in the community. A greater concentration may be provided by changing the zoning of certain concentrated areas to a commercial designation.
3. The limitations stated above would not apply to “hosted” VRs. There is not proposed to be a limitation on hosted VRs, but there should be a very strict “residency” requirement for hosted VRs.
4. Vacation or second homes that are not rented and are only used by family members are not affected by this regulation, as is now the case.
5. The fee and licensing requirements should be substantially increased as described herein. An adequate portion of those fees and increased TOT should be dedicated to enforcement and to fund neighborhood improvements and “wellness” activities and programs.
6. State and local regulations already adequately cover trash management, noise and overcrowding. Do not use the VR ordinance to re-legislate these issues. **Enforcement is what is lacking, and the funding from increased VR revenues can facilitate that.**

Background and Analysis

We observe that discussion of this matter in public often leads to high emotions and confusion about what the precise entitlements will be. So, as a primer, here is the context of the issue as we understand it: Morro Bay started out as a “second home” community, but has evolved to have a more significant full time, year-round population. It currently has a total of 6,206 residential dwelling units,

with approximately 20-25 percent of those units (1,200-1,500) being second homes or homes which are not occupied year-round by a resident family (owners or renters). These second homes include family second homes that are used on holidays and weekends, and for use by them for extended times during the summer. They are also being used as licensed and unlicensed vacation rentals. There are currently 250 licensed Vacation Rentals (VRs).

Units occupied by residents may be used as "hosted vacation rentals" under a typical sharing economy type of arrangement (such as Airbnb or VRBO) where a room or portion of a house is rented. A Vacation Rentals where the entire home is rented is referred to as a "non-hosted" Vacation Rental. ("Vacation Rentals" are considered "Short Term Rentals" for the purposes of state real estate and tenant's rights laws.) In San Luis Obispo County, VR's and hosted "home stays" represent approximately 10 percent of the lodging market. In Morro Bay they represent 15 percent of the paid lodging market, excluding the number of family second homes being used by family with no money exchanged for accommodation.

The ordinance proposed by the Planning Commission seems to provide for an apparent unlimited number of hosted VRs/home stay days in the City's 4,600 units that are occupied by year-round residents (both owners and renters), subject to occupancy limitations. It also seeks to change the current full-time VRs to part time uses, or effectively second homes that are occasionally rented out. This part of the proposal is vehemently opposed by our members in the VR industry. The proposed ordinance also does not address "part-time" VR rentals that might be allowed a limited number of days a year, and might address, legalize, regulate and tax second home rentals. The proposed ordinance would also result in a substantial reduction in the number of allowed non-hosted Vacation Rentals (see below).

The IRS considers a residence as the principal residence of its owner if the owner lives there for a designated length of time in the year, and is only used for incidental rental purposes for no more than 14 days a year; is used by a family member of any person who owns an interest in the property; or, is used as an exchange that lets the owner use some other dwelling.

Morro Bay is a unique and naturally breathtaking recreation destination. Second homes, hotels, motels, hosted VRs (i.e. Airbnb), and non-hosted VRs (i.e. Airbnb, VRBO or independently-owned, professional management companies) constitute different lodging choices for our visitors. This fact is important since there has been very little growth in the number of hotel and motel rooms over the last ten years, since the hotel/motel stock is not well suited to accommodating an entire family, since our visitors are increasingly sophisticated in their accommodation needs and continually seek new (and better) experiences when they return. The growth in VRs is the only element of the supply of lodging that has increased in recent years. The current stock of accommodations is not adequate to meet the needs of new visitors that we intend to capture, nor diversify our lodging options. Longer term success from implementing recommendations in the City's Tourism Destination Strategy will come from meeting the lodging consumer's preferences.

Policy Issues and Recommendations

Based on reports from the City, anecdotal testimony at the forums, GAC and Chamber Board comments, and input from our lodging industry members, the issues seem to be these:

1. Discussion of this matter often leads to complaints about noisy neighbors and visitors. This may be a noisy resident, but it is believed that this issue stems more from second homes than licensed VRs. ***There is no substantial evidence that licensed Vacation Rentals create any more noise or nuisance than other residences. There is also no lack of City or State regulations to address noise, overcrowding or trash management.***
2. Vacation Rentals that are professionally managed and monitored have a limited number of complaints. ***The City's licensing requirements appear to be an effective way of managing potential conflicts. Enforcement and monitoring should be on a more regular, systematic basis, rather than simply complaint based.***
3. There are adequate regulations on the books to control noise and other nuisances, but neighbors often hesitate to complain about their neighbors. ***Some signage and contact information at a VR should be required. Enforcement and monitoring should be on a more regular, systematic basis, rather than simply complaint based, and should be funded from the incremental increase in annual license fees and incremental VR revenues.***
4. There is a concern that a higher number of Vacation Rentals and second homes in a neighborhood leads to poor social cohesion, and less feeling of community. Residents living in blocks that are impacted complain of feeling isolated or threatened by their oft-changing "neighbors". (There is also a corollary concern that certain institutional lenders will not underwrite a conforming single-family homeowner loan that is in a predominantly "rental" neighborhood.) Currently, some neighborhoods are impacted more than others by VRs, in particular those close to the Embarcadero, Beach Tract, or near Downtown. For example, North Morro Bay, Beach Tract and Island Tract in particular, have a higher than average concentration. As shown in the table below, Beach Tract has a concentration that is two to four times that of other neighborhoods and equal to a 125-foot separation radius. The Island Tract has a centration equal to one unit per 175-foot radius. **The City's proposed 250-foot separation requirement would require most neighborhoods to reduce the number of VRs, as shown in the table below. The regulations should not be designed to "turn back the clock" by assuming that there will be a substantial reduction in VRs in any given neighborhood, or overall. There should probably not be one density standard, and the density standard may need to be focused on blocks rather than a distance radius. It is recommended that a density standard of five percent (5%) be established with the separation standard of 200 between licensed non-hosted VRs. Non-residential zones should not have limitations, and hosted VRs and vacation homes would not be subject to this requirement. This standard would require the long-term reduction of units in Beach Tract and Island Tract as units are sold and non-hosted VRs licenses are surrendered per the agreement, or as licenses are not renewed for cause or non-compliance. Overall, this would permit an increase in the number of VRs by about 50-75 units community wide.**

Vacational Rental Density Comparison						
Radius Methodology						
Separation Radius (feet)		Density			Comments	
		Units/Acre	Percent of Total Units	Acres/Unit		
100		1.39	21.3%	0.72		
150		0.62	9.5%	1.62		
200		0.35	5.3%	2.88	Chamber Proposed	
250		0.22	3.4%	4.51	PC Proposed	
					Change in Units in Area	
Existing Densities	Units	Units/Acre	Percent of Total Units @	Units increased or (decreased) @	Units increased or (decreased) @	Units increased or (decreased) @
Assumed Radius (feet)>>>>			6.50	250	200	150
Beach Tract	49	0.77	11.8%	(35)	(27)	(10)
Island Tract	35	0.42	6.5%	(17)	(6)	16
Del Mar North	22	0.30	4.6%	(6)	3	23
Del Mar South/Tree Streets	40	0.28	4.3%	(8)	10	48
Harbor Tract	9	0.26	4.0%	(1)	3	12
Downtown North	6	0.16	2.5%	2	7	17
Downtown South/Heights	57	0.18	2.8%	13	53	138
Waterfront (Main to Embarcadero)	18	0.17	2.5%	6	20	49
Citywide	236	0.16	2.4%	(45)	62	295

5. There was concern expressed at the GAC that in a tight housing market, like San Luis Obispo County, and a more isolated community, like Morro Bay with its very limited growth, usage of the housing stock for VRs will compete with local workers wanting to live in town. The industry members that we consulted commented that **long term rentals provide more economic return than a VR, and that a VR may be an income-producing strategy for a second home when the owner is not using it.** Therefore, there should be a percentage restriction on the number of ADUs permitted to be used for VRs city-wide, and a restriction considered to allow one hosted VR on a lot containing both a primary residence and ADU. **Year-round occupancies stabilize consumer demand. The limits on concentration will ensure an adequate supply of housing.**

6. Regulations should be appropriate to the real or potential problems associated with VRs or home stays. **Over-regulation based on speculation or undocumented issues should be avoided. Adequate regulations exist and the VR ordinance should not be used to re-legislate these standards.**

7. One of the key features of the proposed ordinance is that VRs could be no closer than 250 feet to another VR. The 250-foot distance separation is overly restrictive. If a standard R-1

lot is 50 feet wide (some are narrower) the nearest VR could only be five lots away in each direction on the block face where the VR is proposed to be located. And, it would limit VRs that are potentially two blocks away (if a residential lot is 100 feet deep and a roadway is 50 feet wide). This would result in no more than 2.5% to 3% of the housing stock being VRs, effectively limiting the number of total licensed VRs in the community to less than 200 (3% of 6,206), and maybe substantially lower, and 40 fewer than currently allowed. This effect would take place over time as the City re-allocates surrendered permits due to non-use or property transfer. ***Nevertheless, it would result in a reduction of VRs over time. It would effectively render 1,000 units of the total 1,200 second home units as incapable of being legally rented out as a STR.*** Changing this to 200 feet in all directions would cover the lots in front of and in back of the VR, and three lots in each direction. This would have the practical effect of limiting the number of VRs to 5% in any neighborhood, with no more than three (3) on any block face. This would increase the total potential number to no more than 300 units of the City's 6,206 units. ***The City could have differential percentages in each neighborhood, reflecting the quality of each for VRs, current concentration of units, and the availability of visitor serving facilities. And, there should be a distinction between full time hosted VRs and part time hosted VRs (second homes that are occasionally rented out), possibly with different spacing requirements, but with essentially the same rules. (Note: we question whether there might be a "personal use" exception considered for units that are rented fewer than 14 days a year, per the IRS definition of a residence.)***

8. There have been concerns that increasing VRs or home stays will reduce the community's hotel occupancy rate. However, our hotel industry members indicated that this was not the case, and that each serves a different niche of the market. Families and groups may be more inclined to use a VR than a hotel. The business/government fraction of the local hotel market is small. ***There is no substantial evidence that increasing the number of VRs or home stays will reduce hotel occupancy.***
9. Overcrowding and cleanliness is cited as a legitimate concern. Multiple families may share a house that was not intended for that purpose. There is also concern for trash management and clean-up. ***There should be clear strategies and remedies for overcrowding and cleanliness. City codes already address required trash management, and State Law regulates overcrowding. No added regulations are needed.***
10. There are a number of issues that are not addressed in the ordinance that are recommended:
 - a. Increase in the annual fee for VRs. The current rate is \$105 per year. There has been some suggestion that the fee should be as high as \$2,500 per year. ***Industry representatives indicate that a \$1,000 fee per year per full time VR would be acceptable. The Chamber recommends a fee of \$750 per year. Fees should be established for hosted VRs at \$550 per year.*** If the City is going to expand, regulate and tax this program, it seems reasonable to use this fee to fund enforcement of the VR regulations, and for general VR code enforcement. ***Further, a small fraction of the VR TOT (or a portion of the incremental growth) should be earmarked for***

neighborhood wellness programs. City TOT from VRs accounts for \$552,000 per year. The City should commit 5%-7.5% of this total amount (or 15% of the incremental increase) for neighborhood wellness programs and improvements and community enhancement.

- b. Adequate signage to identify the unit as a VR, with contact information.
- c. Requirements for putting out and taking in trash cans, and general site maintenance. (Morro Bay Garbage already has “yard service,” and there is a local trash valet for this purpose.) Nevertheless, all buildings served by City and Morro Bay Garbage are required to comply with the City’s requirements.

