

**CITY OF TEMECULA  
AGENDA REPORT**

**TO:** City Manager/City Council

**FROM:** Luke Watson, Director of Community Development

**DATE:** January 14, 2020

**SUBJECT:** Approve an Amendment to Title 17 of the Temecula Municipal Code for Short-Term Rentals and Establish Administrative Citation Fines for Illegal Short-Term Rentals

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**PREPARED BY:** Brandon Rabidou, Assistant Planner

**RECOMMENDATION:** That the City Council:

1. Introduce and read by title only an ordinance entitled:

ORDINANCE NO. 20-

AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF TEMECULA AMENDING TITLE 17 OF THE TEMECULA MUNICIPAL CODE TO ADD A DEFINITION OF SHORT-TERM RENTALS AND ADDING SHORT-TERM RENTALS TO THE USE REGULATION TABLE, AND FINDING THAT THIS ORDINANCE IS EXEMPT FROM THE CALIFORNIA ENVIRONMENTAL QUALITY ACT (CEQA) PURSUANT TO CEQA GUIDELINES SECTION 15061 (B)(3)

2. Adopt a resolution entitled:

RESOLUTION NO. 20-

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF TEMECULA ESTABLISHING THE SCHEDULE OF ADMINISTRATIVE CITATION FINES FOR ILLEGAL SHORT-TERM RENTALS PURSUANT TO TEMECULA MUNICIPAL CODE SECTION 1.21.060

**BACKGROUND:** The short-term rental (STR) market emerged as part of the on-line “sharing economy” where homeowners rent a room or their entire home for short stays, such as overnight, weekends, or even a week in some cases. Generally, the stays are short and not more than 30 consecutive days. These STRs are often done as a way to generate rental income by the owner of the home. The use of STRs by tourists has turned into a booming unregulated economy,

growing immensely in recent years. Staff's research in 2017 showed there have been as many as 300 unpermitted STRs in the City of Temecula. The number of short term rentals varies depending on the time of year and the type of activities or events occurring around the community.

This increase in STR use correlates to an increase in complaints from residents about neighborhood impacts. STRs are seen as providing a different experience than that of the traditional hotel stay where renters, which may include friends and family members, can stay in a home at an affordable price and have full use of the amenities offered by the STR host. This, at times, has led to the City receiving complaints about renters generating excessive noise, disorderly conduct, traffic congestion, illegal parking, and accumulation of trash. The increase in use of STRs may also be contributing to a recent decrease in hotel occupancy as well as a decrease in collection of Transient Occupancy Tax (TOT).

As a result of numerous complaints from residents regarding STRs, staff was directed to research STRs and conduct outreach efforts within the community for the purpose of educating the public and to obtain information regarding the public perception, interest, and support or opposition to STRs.

In April 2018, staff entered into an agreement with HARC Consulting to assist with the community outreach meetings and to prepare a report summarizing the outreach effort and conclusions for consideration in developing policies or regulations related to STRs.

Between July and August of 2018, a total of five community outreach meetings were held; one within each City Council district within the City. The meetings were facilitated by City staff in partnership with HARC. The meetings began with City staff providing a short informational session about short term rentals and their implications for the City. At each of the community outreach meetings, staff presented a slide that informed attendees that short-term rentals are not permitted (Bed and Breakfast establishments were noted to be conditionally permitted with a valid Conditional Use Permit). Community members were given the opportunity to provide input.

Three common themes emerged from public comments at the outreach meetings:

- 1) Positive Comments – STR guests generally rate their experiences as good to very good, STRs create local jobs, and STRs supplement a host's income;
- 2) Negative Comments – Noise and safety impacts quality of life of neighboring residents, lack of accountability of host, and lack of adequate response from the City and Police Department to complaints; and
- 3) Proposed Solutions – The City needs to develop specific regulations, host needs to live nearby or on-site, and the City needs to establish fines and penalties for STRs.

At the November 13, 2018 City Council meeting, staff presented the STR community outreach results. The presentation contained a slide that once again stated that short-term rentals are prohibited (with Bed and Breakfast establishments being conditionally permitted with a valid Conditional Use Permit). During that meeting, speakers spoke both in opposition to STRs and in support of STRs. At the conclusion of that meeting, City Council directed staff to develop a framework around a "hosted" STR ordinance. A hosted short-term rental is one that operates with

a host (“owner home sharing”). A non-hosted short-term rental operates without any requirement for a host (“whole house rental”).

At the March 12, 2019 City Council meeting, staff presented a proposed “hosted” short-term rental framework. Again, this presentation included a slide that informed attendees that short-term rentals are not permitted (Bed and Breakfast establishments were noted to be conditionally permitted with a valid Conditional Use Permit). During that meeting, speakers spoke both in opposition and support of STRs. At the conclusion the public testimony, the City Council discussed the proposed framework, and concerns with enforcing hosted short-term rentals. Additionally, the City Council reaffirmed that non-hosted short-term rentals were no longer a policy option. Further discussion resulted in the City Council providing staff with three tasks. Staff was directed to:

- 1) Proceed with a RFP/Contract with a third party vendor to monitor STR activity in the City
- 2) Return to the City Council with an updated fine for unpermitted STRs
- 3) Return to the City Council STR Subcommittee to further discuss the hosted STR ordinance

On April 17, 2019, staff met with the Planning Commission STR Subcommittee (Guerriero/Turley-Trejo). During that meeting, the PC Subcommittee was updated on the progress of the three tasks. Staff also informed the PC Subcommittee that an ordinance with a short-term rental definition and an amendment (re-affirming the existing prohibition) to the land use table would be forthcoming.

Staff met with the City Council STR Subcommittee on April 23, 2019. During that meeting, staff presented an update on the third party compliance vendor, fine structures, and the return of a hosted STR ordinance. The STR Subcommittee recommended that staff proceed with the updating the fine for unpermitted STRs. Additionally, the STR Subcommittee recommended that staff work through the process of enforcing the updates prior to returning to the City Council with a hosted ordinance. The STR Subcommittee also recommended that staff return to the City Council after 365 days of enforcement to further discuss future changes.

On June 5, 2019, staff presented the proposed amendments to the Planning Commission. Again, the presentation to the Planning Commission included a slide that informed attendees that short-term rentals are not permitted (Bed and Breakfast establishments were noted to be conditionally permitted with a valid Conditional Use Permit). Speakers spoke both in support and in opposition to the proposed amendments. Prior to the hearing, a petition to delay the hearing was received. The Planning Commission was provided with a copy of this petition, and a copy was made available to the public. The Planning Commission approved Resolution 19-17 (4-0 vote) recommending that the City Council adopt the proposed amendments.

On June 25, 2019, staff provided a status update to the City Council Subcommittee on the progress of the three tasks. The Subcommittee recommended that staff only draft an ordinance reaffirming the existing prohibition of short term rentals and updating the fine structure for unpermitted STRs to bring back to the full City Council in the future. In addition, the Subcommittee recommended to increase enforcement of unpermitted STRs.

Since that time, staff has selected a third party compliance vendor, Host Compliance, and

completed third party compliance vendor training. Staff met with the City Council STR Subcommittee on December 10, 2019. During that meeting, staff provided an update on the progress of the ordinance and the above three tasks.

**EFFECTS ON HOUSING SUPPLY:** In addition to the complaints generated by STRs, there is increasing pressure from the State of California for local municipalities to address the current housing crisis. In order to address housing issues, cities are required to analyze and forecast housing in the Housing Element of their General Plan every eight years. During each eight-year housing cycle, cities are allocated a Regional Housing Needs Assessment (RHNA) number. Cities are required to report on RHNA progress annually. The City's 2018 RHNA Annual Progress Report documented 90 new housing units. According to the California Department of Housing and Community Development (HCD), 180,000 additional housing units are needed statewide (annually) to keep up with existing and projected housing demand. The lack of available housing has created a situation where residents of California are paying an unsustainable amount of their income towards rent. More than three million households pay more than 30 percent of their income towards rent; 1.5 million households pay more than 50 percent of their income towards rent. The lack of affordable housing is also frequently cited as a contributing factor to increased homelessness. The 300 housing units that are being utilized for unpermitted short-term rentals cannot be quickly replaced with new housing units and they continue to reduce the City's housing supply. As the City begins on a required Housing Element update, housing losses associated with unpermitted short-term rentals are becoming a serious concern for the City and communities throughout the state.

**PROPOSED AMENDMENTS:** To adequately address prohibited short-term rentals and gain compliance, City Council requested staff to increase fines for unpermitted short-term rentals. In order to have a fine that is specific to short-term rentals, the Temecula Municipal Code will need to add a definition for that term. Short-term rentals are currently prohibited under the City's permissive zoning code. Temecula Municipal Code Section 17.01.080 states, "[n]o person shall use any premises except as specifically permitted by and subject to the regulations and conditions of this development code." The City is looking to reaffirm the prohibition of short-term rentals due to the recent proliferation of short-term rentals that are operating in violation of the Temecula Municipal Code.

The proposed amendments before the City Council include two changes. The first change adds a definition of short-term rentals. The definition is as follows:

““Short-term rental” shall mean the rental of a dwelling unit (in whole or in part), accessory structure, and/or a recreational vehicle located upon a parcel or a portion thereof, by owner(s) or lessee(s) to another person or group of people for occupancy, dwelling, lodging or sleeping purposes for a period of less than 30 consecutive calendar days.

A short-term rental includes any contract or agreement that initially defined the rental term to be greater than 30 consecutive days and which was subsequently amended, either verbally or in writing to permit the occupant(s) of the owner(s) or lessee(s) short-term rental to surrender the subject dwelling unit before the expiration of the initial rental term that results in an actual rental term of less than 30 consecutive days.

The rental of units within city-approved hotels, motels, bed and breakfasts, community care facilities, and social care facilities shall not be considered to be a short-term rental.”

The second change adds a new row to Table 17.06.030 that lists short-term rentals as a prohibited use in all residential zones. As presented at multiple public meetings, short-term rentals are currently prohibited under City’s permissive zoning. The addition of a new row prohibiting short-term rentals will only reaffirm this existing prohibition.

**PROPOSED FINE RESOLUTION:** In coordination with the proposed Temecula Municipal Code amendments, a resolution is being brought before the City Council to increase the fines for unpermitted short-term rentals to \$1,000. A \$1,000 fine is the maximum permissible fine for an ordinance violation in a general law city, under Government Code §36901.

Discussions with other cities and peer analysis shows that higher fines may be necessary to address unpermitted short-term rentals. Cities with inadequate fines have observed short-term rental operators that simply absorb fines instead of stopping unpermitted operations. Consequently, the City’s current escalating fine structure of \$50, \$150, and \$250 is inadequate to address short-term rentals. The proposed resolution would increase initial and subsequent fines for illegal short-term rentals to \$1,000 per day if a violator did not remediate the issue after a warning.

The proposed fine will be specific to short-term rentals in order to ensure that other Temecula Municipal Code violations (e.g., leaving trash cans in the street) are not affected by the proposed fine increase.

**SUMMARY:** If approved, the proposed ordinance and resolution would do the following:

- 1) The Temecula Municipal Code would be amended to add a definition of short-term rentals.
- 2) The Temecula Municipal Code would be amended to add short-term rentals to the land use matrix. (Short-term rentals are already prohibited under the City’s permissive zoning. The addition of short-term rentals to the land use matrix as a prohibited use will re-affirm the existing prohibition.)
- 3) A resolution would be adopted to increase the administrative citation fines to \$1,000

**FISCAL IMPACT:** Community Development budgeted sufficient funds for the ordinance development and fee study, which will include administrative costs, and enforcement.

**ATTACHMENTS:**

1. Ordinance No. 20-
2. Resolution No. 20-
3. Notice of Public Hearing
4. Planning Commission Resolution No. 19-17
5. Planning Commission Staff Report