



Kate Harrison
Councilmember District 4

REVISED AGENDA MATERIAL

Meeting Date: December 5, 2017

Item Number: 16

Item Description: Budget Priorities for Expenditure of Short-Term Rental Taxes

Submitted by: Harrison

We have revised this item to state that the On-Site Publicly Accessible Art percentage is 1.75%, not 1.00%. The required valuation of on-site public art increased from 1% to 1.75% in October of this year. We have revised this item to reflect these changes.



Kate Harrison
Councilmember District 4

CONSENT CALENDAR
December 5, 2017

To: Honorable Mayor and Members of the City Council

From: Councilmember Harrison, Mayor Arreguín, and Councilmember Bartlett

Subject: Budget Priorities for Expenditure of Short-Term Rental Taxes

RECOMMENDATION

Adopt a Resolution to allocate the revenue collected from short-term rental taxes to programs supporting affordable housing and the arts.

BACKGROUND

In February of 2017, the City of Berkeley adopted the second reading of Ordinance 7521-NS, adding BMC Chapter 23C.22 (Short-Term Rentals) and amending Titles 23D and 23E. The ordinance, among other measures, established that short-term rentals are subject to the same Transient Occupancy Tax imposed on hotels, as defined by BMC Section 7.36.

The Transient Occupancy Tax requires customers of hotels and short-term rentals to pay an additional fee of 12% of the rent charged by the operator. The revenue generated by this tax is allocated to the General Fund, where it ostensibly will be allocated toward parks, public buildings, infrastructure, and other public expenditures.

The following resolution seeks to direct the revenue allocation from the short-term rental tax. As stated in the “Building a Better Berkeley” portion of the Mayor’s Proposed Budget 2017, the tax “will finance City infrastructure costs and other public expenditures.” By authoring a resolution specifying the direction of these funds, the original goals of the Ordinance will be more successfully met.

These goals were borne out of a general concern, articulated in the Ordinance, over short-term rental units replacing long-term units, thus reducing the supply of available permanent units and exacerbating the negative effects of the affordable housing crisis. The Ordinance also expressed a desire to combat the “nuisances” sometimes associated with the presence of Short-Term Rentals.

Allocating a portion of the funds to the Civic Arts Grant Fund aids the city of Berkeley in maintaining its economic, intellectual and cultural diversity, attributes that draw tourists to the City in the first place. This model follows the example of San Francisco, who for decades allocated portions of their hotel tax to fund affordable housing and arts programs.

FINANCIAL IMPLICATIONS

This proposal will not change the rate of the Transient Occupancy Tax, currently at 12%, and therefore will have no net financial change. The projected \$800,000 generated from short-term rental taxes would be taken from the General Fund and allocated to specific funds within the City. Ensuring the revenue generated from the Transient Occupancy Tax on Short-Term Rentals goes toward ameliorating these issues is vital; therefore, so is the existence of this resolution.

ENVIRONMENTAL SUSTAINABILITY

No Ecological Impact

CONTACT PERSON

Councilmember Kate Harrison, Council District 4, 510-981-7140

ATTACHMENTS

1. Resolution

RESOLUTION NO. ##,###-N.S.

ESTABLISHING BUDGET PRIORITIES FOR EXPENDITURE OF SHORT-TERM RENTAL TAXES COLLECTED BY THE CITY PURSUANT TO BERKELEY MUNICIPAL CODE SECTIONS 7.36 AND 23C.22

WHEREAS, through the adoption of Ordinance No. 7.521-N.S. on February 28, 2017, the City Council clarified that short-term rentals are subject to the Transient Occupancy Tax; and

WHEREAS, the purpose of the Ordinance was to allow hosts to benefit from available space in their homes while, among other things, preventing long-term rental units from being replaced with short-term rentals, protect affordable housing units from conversion and generate City revenue to share City infrastructure cost and other public expenditures; and

WHEREAS, the proliferation of short-term rentals reduces the supply of housing in the City; and

WHEREAS, fees charged by short-term rental units can easily eclipse the rate charged by a standard rental unit, incentivizing the owners of short-term rental units to theoretically keep units empty; and

WHEREAS, Ordinance 7521-NS does not specify the programs to which the revenue generated from the Transient Occupancy Tax ought to be allocated; and

WHEREAS, the City's Housing Trust Fund helps to develop and preserve long-term below market rate housing for low, very low, and extremely-low income households, and receives funding from development fees and various other sources; and

WHEREAS, in accordance with BMC Section 23C.23.050 developers must either "Include On-Site Publicly Accessible Art valued at ~~4%~~ 1.75% of the Construction Cost" or "Pay an in-lieu fee of 0.80% of the Construction Cost to the City".

NOW THEREFORE, BE IT RESOLVED by the Council of the City of Berkeley that the City Manager shall allocate and budget the taxes collected pursuant to BMC Section 23C.22.050, Section H for the purposes listed below:

1. Two thirds (66.7%) allocated to the Affordable Housing TrustFund.
2. One third (33.3%) allocated to the Civic Arts GrantFund.



Kate Harrison
Councilmember District 4

ACTION CALENDAR

December 19, 2017

(Continued from December 5, 2017)

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From: Councilmember Harrison, Mayor Arreguín, and Councilmember Bartlett
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