



MEMORANDUM

P.O. Box 4100 ♦ FRISCO, COLORADO 80443

TO: MAYOR AND TOWN COUNCIL
FROM: DANELLE COOK, HOUSING PROGRAM MANAGER
RE: SHORT-TERM RENTAL OVERVIEW AND STRATEGIES CONTINUED FROM 6/14
DATE: JUNE 28, 2022

Summary and Background: At the June 14th Town Council Work Session, Town staff presented a general overview of short-term rentals and various strategies that could be considered going forward. The Town of Frisco began regulating short-term rentals on May 1, 2019. At the end of 2019, the Town had issued just over 400 STR licenses. Three years later, that number has grown to over 700 licenses, equating to 20% of our entire housing inventory. While short-term rentals undoubtedly have a positive impact on the local economy by adding jobs and increasing revenue, they also have negative impacts such as decreasing the availability and affordability of housing, diminishing residential character, and causing disturbances for the surrounding residents. Overall, Town Council expressed interest in achieving a balance between the needs of the visitors who contribute dollars to our economy, and the needs of the local community who keep our economy running.

The strategies that were discussed included inclusionary zoning, an overlay zone district, defining license types, implementing a license cap, and a moratorium. The majority of Town Council was not in favor of a tourism overlay zone district or a moratorium. Instead, staff was directed to research inclusionary zoning, commercial linkage, a license cap, as well as defining license types, and come back to future meetings with more information. The purpose of this work session discussion is to determine the appropriate number of licenses for a cap and to define a license type that would differentiate owner-occupied properties from investment properties. Information about inclusionary zoning and commercial linkage will be presented at a future meeting.

Analysis: When considering a license cap, there are several different methods that could be utilized for calculating the maximum number of STR licenses. For example, the cap could be a specific number, a percentage of the entire housing inventory, or a ratio. Three potential options are explored in detail below.

License Cap:

Option 1 – Currently, the Town of Frisco has 724 STR licenses, an amount equal to 20% of the entire Frisco housing inventory. At the June 24th Town Council meeting, Council Member Andrew Aerenson suggested setting a license cap at 22% of the total housing inventory, or 792 STR licenses. Since there are only 724 issued STR licenses, this option would allow 68 additional licenses. Using a percentage, rather than a specific number would also allow the

quantity of STR licenses to increase as new units are constructed. As Town staff works to increase the accuracy of the buildout analysis, these numbers may change. For example, if the buildout analysis indicates that there are more or less than 3,600 residential units, than the license cap would increase or decrease accordingly, as shown in the table below.

| Housing Units | 20 % STR Licenses | 22% STR Licenses | 25% STR Licenses | 30% STR Licenses |
|----------------------|--------------------------|-------------------------|-------------------------|-------------------------|
| 3200 | 640 | 704 | 800 | 960 |
| 3300 | 660 | 726 | 825 | 990 |
| 3400 | 680 | 748 | 850 | 1020 |
| 3500 | 700 | 770 | 875 | 1050 |
| 3600 | 720 | 792 | 900 | 1080 |
| 3700 | 740 | 814 | 925 | 1110 |
| 3800 | 760 | 836 | 950 | 1140 |
| 3900 | 780 | 858 | 975 | 1170 |
| 4000 | 800 | 880 | 1000 | 1200 |

As mentioned, the buildout analysis is in progress. In the meantime, the Summit County Assessor's data shows 3,200 residential properties, but it does not account for individual units on the parcels that contain multiple units (i.e. the apartments next to the Moosejaw) or for lock-offs. In comparison, the Census data indicates there are 3,600 residential housing units in Frisco, which appears to be more accurate after estimating the total quantity of residential units that were not identified in the Assessor's data. Staff will continue to research and develop a residential buildout analysis for the Town to develop a more accurate dataset to assist the decision-making process.

Option 2 – While Option 1 proposes a license cap equal to a percentage of the entire housing inventory, Option 2 proposes to subtract all deed restricted homes from the total housing inventory before applying a percentage cap. For example, the existing 156 deed restricted units would be subtracted from 3,600 residential housing units, equaling 3,444. If a 22% cap were applied, then a maximum of 758 STR licenses could be issued using this methodology.

In the event that newly constructed market-rate units are added to the Frisco housing inventory, the STR license cap would increase. However, if newly constructed deed restricted units are added to the Frisco housing inventory (i.e. 22 units at Granite Park), the STR license cap would not change. And, in the event that existing market-rate units convert to deed restricted workforce housing units through the Housing Helps program, the STR license cap would decrease.

Option 3 – During the June 14th Work Session, Mayor Mortensen suggested that the maximum number of licenses could be determined as a ratio based on the quantity of deed restricted homes. Currently, Frisco has an approximate ratio of 1 deed restricted home per every 5 STRs. If the Town were to adopt the current 1:5 ratio, the quantity of STR licenses could reach 1,530 by the time we reach our goal of doubling the amount of deed restricted units in 2027.

However, if the Town adopted a one-to-one ratio, as suggested by Council Member Burley, the quantity of STR licenses would not increase until the quantity of deed restricted properties exceeds 724 units. And, in the meantime, the quantity of licenses would decrease every time an STR owner chose not to renew their license or sold their STR property. The table below

provides calculations for various different ratios, based on our current number of deed restricted units.

| Ratio (Deed restricted homes / STR Licenses) | Deed Restricted Homes | STR Licenses | Percentage of Housing Inventory |
|---|-----------------------------|-----------------|------------------------------------|
| 1:1 | 156 | 156 | 4.3% HRC / 4.3% STR |
| 1:2 | 156 | 312 | 4.3% HRC / 8.6% STR |
| 1:3 | 156 | 468 | 4.3% HRC / 13% STR |
| 1:4 | 156 | 624 | 4.3% HRC / 17.33% STR |
| 1:5 | 156 | 780 | 4.3% HRC / 21.66% STR |
| 1:6 | 156 | 936 | 4.3% HRC / 26% STR |
| 1:7 | 156 | 1,092 | 4.3% HRC / 30.33% STR |

The table assumes the number of deed restricted units would be less than or equal to the number of STR licenses, based on the current conditions. If Town Council desires a ratio that requires more deed restricted units than STRs, then the two categories can be swapped to easily calculate the reverse ratios.

This option suggests that the quantity of STR licenses should be in balance with the quantity of workforce housing units. Determining the numbers that would support that balance is key to achieving a successful outcome.

The Colorado Short-Term Rental Impact Study published by HR&A in May 2022 indicates that STR visitor spending supported 5,900 jobs in Summit County in 2020. In other words, every two STRs generate one job. While the HR&A report was produced with the intent of highlighting only the benefits of STRs and contains inaccuracies, the study does successfully demonstrate that each STR generates jobs, therefore requiring workforce housing units for the employees working those jobs.

Furthermore, the Colorado State Demographer's data shows a total of 24,773 jobs in Summit County in 2020. The 2020 US Census data indicates there were 31,055 Summit County residents and 12,939 occupied homes, resulting in 2.4 people per household. At this time, we do not have data showing how many jobs each person worked, or which type of jobs were available (i.e. full-time, part-time, seasonal). Town staff recommends allowing more time to conduct further research on these statistics to determine an accurate quantity of workforce housing units needed to sustain our economy. Once the required number of workforce housing units is determined, the appropriate ratio could be selected.

Defining License Types: One of the main objectives of regulating short-term rentals is to mitigate negative impacts to the local community, including the availability and affordability of housing. Thirteen percent (94) of all Frisco STRs are owned by Summit County locals and 41 are assumed to be utilized as a primary residence. The locals who short-term rent their primary residence, either while on vacation or as a shared home situation, do so as a means to support housing affordability. Town Council previously expressed an interest in exempting local owners who occupy their STR as a primary residence from the license cap.

In order to accomplish the goal, the Town could create two license types: exempt and non-exempt. To qualify as exempt, the property owner must occupy the STR unit as a primary

residence. Any STR license applicant requesting an exemption must provide their federal tax filing showing the property address as the filing address, to be utilized as proof of primary residence. An exemption could also be granted for a property owner showing that the property was long-term rented to a member of the local workforce for a minimum of 10 months during the preceding year. The STR license cap would only apply to all non-exempt applicants. An exempt license would be requalified as exempt as part of the annual renewal process.

Financial Impact: To apply for a short-term rental license, the applicant must submit a \$250 fee. The same fee is applied annually in order to renew the license. In addition to the license fee, the STR owners must collect and remit taxes in an amount equal to 15.725% of the gross revenue generated by the STR, which includes the 5% excise tax that went into effect June 1, 2022.

In 2021 (before the excise tax existed), Frisco STRs generated \$1,713,899 in revenue. The funds were used to pay for staff time, STR software, workforce housing, the Information Center, recreation, special events and marketing, as well as general operating expenses. In effect, limiting the quantity of STR licenses that can be issued will also limit the amount of revenue generated by STR licenses.

Alignment with Strategic Plan: The Strategic Plan identifies priorities such as *Inclusive Community, Thriving Economy, and Vibrant Culture and Recreation*. Additionally, the Strategic Plan seeks to increase the number of residential housing units occupied by Frisco residents to 50%. Balancing the quantities of short-term rentals and workforce housing units is key to achieving these priorities.

Environmental Sustainability: Ensuring availability of workforce housing has indirect benefits to the environment.

Staff Recommendation: Because the maximum allowable quantity of STR licenses proposed in this report was selected based on current numbers, Staff recommends gathering more data and conducting stakeholder interviews to further develop our understanding of the anticipated outcome prior to implementing a cap.

Approved By:

Diane McBride, Interim Town Manager
Don Reimer, Community Development Director
Leslie Edwards, Finance Director

Attachments: None