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June 20, 2023

The Honorable Jacqui Irwin
Chair, Assembly Revenue and Taxation Committee
1020 N Street, Room 167A
Sacramento, CA 95814

RE: SB 584 (Limón) Laborforce housing: Short-Term Rental Tax Law.
Notice of OPPOSE UNLESS AMENDED (05/18/2023)

Dear Assembly Member Irwin,

The City of Arcata regrettably must **oppose unless amended** measure **SB 584**, which would impose a 15% tax on the occupancy of short-term rentals. Proceeds of the tax would be used to provide grants for the creation of “laborforce housing.”

SB 584’s intent is laudable, and we appreciate the author’s desire to provide cities with funding for housing development. But, the ends do not always justify the means. We support efforts to reduce the cost of developing affordable housing and expand affordable housing statewide. However, this measure takes a flawed approach by creating a statewide 15% tax on the occupancy of short-term rentals, paid for by the renter of the property. Currently, more than 400 cities and 55 counties impose a local Transient Occupancy Tax (TOT), with the most common rate being 10%. Current TOT rates have taken a long time to reach their current levels and are often increased incrementally over many years.

For many cities, tourism and hospitality are essential economic drivers, resulting in cities relying on their local TOT as a primary source of General Fund revenue. In fact, in some instances TOT can represent over two-thirds of General Fund revenues, funding fire, police, and other essential services. Imposing a 15% statewide tax on top of existing local rates averaging 10% would cripple this critical local revenue source for these communities by making the cumulative TOT a fiscal burden for tourists who would like to visit the community and invest in the local economy.

This cost burden would effectively put crippling downward pressure on communities throughout the state, making it unlikely cities will be able to raise their local TOTs in the future to keep up with inflation to appropriately fund the services that their residents need.

TOT is a vulnerable revenue source for the City of Arcata. As a small coastal town (population 18,688), with a newly designated Cal Poly University, every lodging room is a valuable resource. Over the past two years, the City has converted 2 hotels to Project Homekey facilities and will lose short-term use of up to 4 hotel establishments that have been committed to Cal Poly’s student housing deficit this fall. As a result, the City’s TOT revenue is projected to be 25% less in FY 2023-24 than FY 2022-23, even including the in-lieu of tax payments from Cal Poly. While the City has supported converting hotels to housing stock to balance our communities’ needs, our local decisions could not foresee statewide

legislation that would jeopardize the local balance of housing, tourism, and hospitality. An equation that local governments must be able to control at the local level.

The loss of TOT and available lodging options reflects the displacement of overnight visitors and tourists and spending by those visitors in our stores and local restaurants. It impacts scouting trips from those interested in our community, visitation from Cal Poly students and friends, and regular tourism -which has been essential to Humboldt County's tepid recovery from the Pandemic. Arcata supports increasing workforce housing but adding 15% to the City's existing 10% TOT and the Humboldt County Tourism Business Improvement District (BID) of 2% will deter overnight stays. Moreover, a statewide 15% increase in short-term lodging is a worldwide headline that shouts that California is not visitor friendly and promotes California as simply too expensive for all but the very wealthy. Most tourists and those with business interests who visit Arcata, Humboldt County and most of Northern California are attracted to its affordability and rural outdoor-based communities which as of today, remain financially accessible.

Rather than directly saddling Californians and tourists with an additional tax and restricting local government's ability to meet the needs of their residents, we recommend levying a tax or fee on the activity identified in the bill as contributing to the housing crisis, the "commercial use of residential homes and apartments for transient occupancies." The person/entity engaged in that activity is the home/apartment owner, not the transient lodger.

For these reasons, the City of Arcata respectfully **opposes unless amended SB 584.**

Sincerely,



Sarah Schaefer, Mayor
City of Arcata

Cc:

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