



CITY COUNCIL AGENDA BILL

AB 3149
December 10, 2024
Regular Agenda

Agenda Item: 8f

Proposed Action & Subject: Discussion/possible action regarding approval of a Resolution declaring a housing shortage emergency exacerbated by the proliferation of Short-Term Rentals.

Department Housing Department/City Attorney's Office

Time to Present 5 mins

Total Time for Item 30 mins

Other Council Meetings NA

Exhibits A. Resolution

Finance Approval	Reviewed 11/25/24 BGW	
City Attorney Approval	Reviewed 12/4/24 KWC	Expenditure Required
		\$ xxx
City Manager's Recommendation	Recommend adoption ABS 12/2/24	Amount Budgeted
		\$ xxx
		Account No. (Description)

SUMMARY STATEMENT

Background:

The City of Sedona historically banned rental of residential homes for less than 30 days. When the State preempted cities, towns, and counties in 2017 by imposing a one-size fits all policy, the City had no vacation or short-term rentals (STRs). Without the City or Council input, the Arizona legislature determined that all of the City's residential homes, all of its residential housing stock, should be eligible to be turned into hotels regardless of its location in the City, proximity to schools, or distance from tourist amenities.

By late 2019, before even COVID hit, the City knew it had a HUGE housing problem. It started a housing study and began to look for ways to track the numbers of STRs which were estimated at between 400-500. Instead, by September 2020, the City already had over 700 STRs. In November 2020, the City's first housing study showed the City needed between 1,480 to 1,515 more units of affordable residential housing.

Over the next couple of years, instead of more housing, the City got more and more STRs. The City's latest count shows 1,203 active STRs within the City limits which is 17.75% of the City's residences are now being used as STRs. The resulting growth in STRs means the City is now over 2,500 housing units short, worse than it was 4 years ago.

The price of houses is increasing as well as being in more demand. In 2019, the average price of housing units reached \$636,000, a 45% rise since 2015. The October 2024 median home price was \$969,000.

The City's population dropped from about 10,300 in 2017 to 9,684 at the 2020 census losing about 5% of the City's population as a direct result of STRs. The local school district, Sedona Oak Creek Unified School District, has had to close its new District Offices, and one elementary school in 2020. The School District is down to just West Sedona Elementary and the Sedona Red Rock High School which now houses the district offices. The City, luckily, was in a position to rent the old district offices from the School District.

The City does not claim that STRs are the only thing to blame for the housing shortage and affordability crises, but STRs are having an oversized impact on Sedona which goes to show a one-size-fits-all approach is not smart legislation. Without legislative changes, there is nothing to prevent the number of STRs from continuing to grow from nearly 18% to 20%, 1/5th of the City's housing stock, or beyond.

Sedona Efforts to Combat Housing Shortage:

Sedona is not waiting on the legislature to solve its housing shortage problems. Sedona City Council recently passed an ADU ordinance. Even though HB2720 does not require Sedona to pass an ADU ordinance, it did so in an attempt to increase housing opportunities. Sedona previously allowed ADUs, but it rescinded its previous ADU ordinance in 2016 in advance of STRs becoming legal in 2017 because of the valid concern that all ADUs would just become STRs. But as you know, HB 2720 smartly allowed cities to require the owner to live on the property if they want to rent out the ADU as an STR. That's the original intent of STRs, to allow someone to rent out an air mattress as a bed and maybe a breakfast. Now, its corporations and investors pushing out neighbors.

The City is fighting legal battles to protect resident housing. The latest national trend is for investors to buy mobile home parks that house the most vulnerable persons in our communities, sometimes persons just one step away from being homeless, and increase the rent because many mobile homes are too old to be moved or the owners cannot afford to move them. Now, one local mobile home park owner is suing the City to be able to evict all 59 residents to turn the 59 mobile home spaces into 59 STRs in new park model trailers. Other owners are threatening to sue the City for the right to be able to turn their business office spaces into STRs which would make it harder for the medical community like doctors and dentists to afford office space in the City.

The City continues to offer up to \$10,000 to convert currently operating STRs to a long-term rental. The City pursued a safe place to park for local workers who live in their cars, but the re-zoning necessary to enact the program was rejected by the voters.

Finally, the City is actively pursuing affordable housing projects. It has two projects ready to be built. A 3 story, 30 unit low-income affordable-housing project called the Villas on Shelby, and a 46 unit affordable-housing project called Sunset Lofts. The cost to construct these affordable housing units is over \$300,000 for each apartment unit, not even counting the land costs. The City has already set aside two other properties for affordable housing projects, a small part of the former Cultural Park and 401 Jordan Road and is looking for other opportunities.

Factoring in the land costs this will equate to an over \$25 million investment towards affordable housing in Sedona which the City has been diligently saving for. This will not be enough if the number of STRs continues to grow or worse, if new units built are used as STRs. In the past,

those with jobs in Sedona could count on finding affordable housing in the rest of the Verde Valley, like Cottonwood, Clarkdale or Camp Verde, but not anymore. Those communities are now facing the same struggles as Sedona.

Resolution Declaring Housing Emergency:

Due to the ongoing increases in STRs, causing a shortage of housing, and that relief needs to come from the Arizona Legislature, staff have drafted a model resolution for the Sedona City Council to consider adopting.

The Resolution explains the City's legitimate governmental interest in preserving the residential character of neighborhoods to enhance the quality of life for its residents and visitors by minimizing the adverse impacts of STRs through regulation. The Resolution declares a housing emergency in Sedona and requests the State Legislature and Governor amend state law to allow the City to enact reasonable zoning on the number and locations of STRs.

The Resolution is intended to be a model resolution that other cities/towns/counties in Arizona can adopt, and modify as needed, in order to bring attention to this important component of the housing shortage and housing affordability crises.

Climate Action Plan/Sustainability Consistent: ☐ Yes - ☐ No - ☒ Not Applicable

Board/Commission Recommendation: ☐ Applicable - ☒ Not Applicable

Alternative(s): Not pass the Resolution.

MOTION

I move to: approve Resolution No. 2024-__, declaring a housing shortage emergency exacerbated by the proliferation of short-term rentals and inviting other local Arizona governments to adopt the same.

RESOLUTION NO. 2024-__

A RESOLUTION OF THE SEDONA CITY COUNCIL DECLARING A HOUSING SHORTAGE EMERGENCY EXACERBATED BY THE PROLIFERATION OF SHORT-TERM RENTALS FOR THE CITY OF SEDONA; PRIORITIZING AFFORDABLE HOUSING; AND URGING THE STATE LEGISLATURE OF THE STATE OF ARIZONA TO ADDRESS THE IMPACTS OF SHORT-TERM RENTALS ON THE SUPPLY OF HOUSING FOR ARIZONA RESIDENTS.

WHEREAS, zoning power is a fundamental authority used by cities to structure their development and is considered a legitimate exercise of the police power;

WHEREAS, the power to zone is the power to divide up the locality's geographic area into different categories of land use that are inconsistent with each other;

WHEREAS, areas zoned residential are commonly separated from areas zoned commercial and industrial, and residential areas are often further zoned into single-family and multi-family areas;

WHEREAS, courts have long upheld the distinction between residential and commercial uses because the police power allows for the creation of zones where family values, youth values, and the blessings of quiet seclusion and clean air make the area a sanctuary for people;

WHEREAS, the City of Sedona ("City" or "Sedona") has a legitimate governmental interest in preserving the residential character of neighborhoods that enhance the quality of life for its residents and visitors by minimizing the adverse impacts of short-term rentals ("STR" or "STRs") through regulation;

WHEREAS, local regulations are necessary to ensure that such STR activities do not become a nuisance, threaten the public health, safety or welfare of neighboring properties, or threaten the residential character of neighborhoods;

WHEREAS, reasonable local regulations to limit the number and location of STRs will provide a balance between STRs and available housing stock, further regulate nuisances associated with STRs and help preserve residential neighborhood character and integrity;

WHEREAS, local governments apply design standards tailored for residential neighborhoods for their roads, driveways, emergency services planning, public shelters, emergency evacuation plans, solid waste collection, utilities, and buffers, and also tailored in assessing residential infrastructure impacts and their corresponding fair and proportionate development impact and capacity fees;

WHEREAS, permanent single-family home residents inherently understand and know their physical surroundings, to include any safety gaps and potential risks to their families, because they have daily familiarity;

WHEREAS, STR occupants, due to the transient nature of their occupancy, are unfamiliar with local emergency evacuation plans, the location of fire extinguishers, and other similar safety measures that would readily be provided to guests in traditional lodging establishments;

WHEREAS, STR owners may live elsewhere and not experience the quality of life problems and negative impacts associated with STRs in residential neighborhoods;

WHEREAS, permanent residents within residential neighborhoods often establish long-term friendships, social norms and a sense of community which leads to mutual respect among property owners on an ongoing basis;

WHEREAS, a single-family home is typically the largest investment a family will make in their lifetime, with the home held sacred in popular culture as the heart and the center of the family unit;

WHEREAS, permanent residents within established residential neighborhoods deserve the right to tranquility and peaceful enjoyment of their home without over intrusion by an excessive number of transient STR occupants in their neighborhood;

WHEREAS, the U.S. Census Bureau data indicates the average household size in Sedona is 2.06 persons and average family size is 2.52 persons;

WHEREAS, the operation of some STRs in established neighborhoods in Sedona create a huge disparity in the number of occupants in the home compared with the average household size, with 10 or more transient occupants residing in an STR, making the much higher occupancy of an STRs incompatible with established neighborhoods;

WHEREAS, current vacation rental industry practice is to set maximum limits upon the number of transient occupants within an STR, but lacking provisions for verification and enforcement when overcrowding occurs;

WHEREAS, current vacation rental industry practice is to charge a flat rental fee for the term of the STR lease, regardless of the transient occupant count, which incentivizes the current common practice for lessees of STRs to increase the transient occupant count so as to spread out the cost burden of the STR among as many people as possible occupying the STR;

WHEREAS, Sedona has received numerous complaints related to the operation of STRs in residential neighborhoods, including complaints concerning excessive occupants, noise, reduction of street parking and increased trash;

WHEREAS, STR visitors usually rent the accommodation only for a couple of days, thus permanent residents in the neighborhood see new people coming and going every few days, especially when the density of STRs in the area is high. As such, the impacts of living next door to an STR may range from mildly concerning to completely life altering;

WHEREAS, permanent residents worry the penetration of STRs in their neighborhood will change the character and transform the quality of life of the area creating an incredibly difficult task for local governments of finding ways to regulate STRs in such a way that they protect neighborhoods while balancing a home-owner's property rights;

WHEREAS, traditional lodging establishments (hotels, motels, and bed & breakfasts) are generally restricted to commercial and other non-residentially zoned areas where intensity of uses is separated from less busy and quieter residential uses;

WHEREAS, traditional lodging establishments have stricter development standards, undergo annual inspections, and have more stringent operational and business requirements;

WHEREAS, STRs are not treated as similar businesses, posing a threat to the hotel industry which claims that the business models of STR platforms offer unfair economic advantages because STRs do not have to pay for staff and are not regulated like hotels which increases hotel costs substantially;

WHEREAS, STRs eliminate critically important housing units from Sedona's available housing stock;

WHEREAS, STRs have a direct effect on the decline of workforce housing and the preservation of residential neighborhoods in Sedona;

WHEREAS, since STRs are mainly located in residential areas, by renting an STR, tourists are using up space that otherwise might be used for housing by permanent residents, resulting in a decrease of long-term housing availability which contributes to increasing housing and rental prices;

WHEREAS, the Sedona City Council in 2012 declared that a shortage of affordable housing exists in certain areas in the city, i.e. housing that is of good quality, aesthetically compatible with the surrounding neighborhood, and is affordable to a diverse population;

WHEREAS, as of October 2024, 17.75% of Sedona's housing is short-term rentals, one of the highest short-term rental densities in the state;

WHEREAS, Sedona conducted a housing study in 2020 showing, "In total, the five-year affordable housing demand is estimated at 1,480 to 1,515 units." At the beginning of 2020, Sedona had approximately 400 STRs, which has increased exponentially to 1,203 as of the end of October, 2024.

WHEREAS, an Urban Institute Study found that cities and counties across the country face significant rental housing affordability challenges as more households with low and moderate incomes compete for a shrinking number of affordable units;

WHEREAS, in 2020, the Arizona Housing Coalition found that the "proliferation of short-term rentals particularly impacts the availability of affordable housing in high-tourism areas such as Sedona, Flagstaff and Scottsdale."

WHEREAS, a 2019 Harvard Business Review study found the growth of STRs contributes to about one-fifth of the average annual increase in U.S. rent and one-seventh of the average annual increase in housing prices

WHEREAS, lower-income households feel the squeeze most severely and face the fewest options for affordable housing;

WHEREAS, growing affordability challenges also contribute to housing instability and homelessness;

WHEREAS, access to housing is not the same as access to homeownership, and inordinate reductions in the supply of housing available for standard rentals has a destabilizing effect on housing affordability;

WHEREAS, a 2019 Economic Policy Institute cost-benefit analysis concluded the local economic costs of STRs likely outweigh the benefits. While the introduction and expansion of STRs carries large potential economic benefits and costs, the costs to renters and local jurisdictions likely exceed the benefits to travelers and property owners;

WHEREAS, the **Economic Policy Institute** study also made the following findings:

- Rising housing costs are a key problem for American families, and evidence suggests that the presence of STRs raises local housing costs as properties shift from serving local residents to serving STR travelers, which hurts local residents by raising housing costs. This cost is real.

- Because housing demand is relatively inelastic (people's demand for somewhere to live doesn't decline when prices increase), even small changes in housing supply (like those caused by converting long-term rental properties to STRs) can cause significant price increases. Inelastic demand means individual households cannot go without housing even when it becomes more expensive, forcing them to bear the burden of higher costs.
- The rising cost of housing is a key problem for American families. Housing costs have risen significantly faster than overall prices (and the price of short-term travel accommodations) since 2000, and housing accounts for a significant share (more than 15 percent) of overall household consumption expenditures.
- The potential benefit of increased tourism supporting city economies is much smaller than commonly advertised. There is little evidence that cities with an increasing supply of short-term [] rental accommodations are seeing a large increase in travelers. Instead, accommodations supplied via STRs are nearly pure substitution for other forms of accommodation. Two surveys indicate that only 2 to 4 percent of those using STRs say that they would not have taken the trip were STRs unavailable.
- Studies claiming that STRs are supporting a lot of economic activity often vastly overstate the effect because they fail to account for the fact that much of this spending would have been done anyway by travelers staying in hotels or other alternative accommodations absent the short-term rental option.
- Property owners do benefit from online lodging marketplaces' capacity to lower the transaction costs of operating short-term rentals, but the beneficiaries are disproportionately high-wealth households. Wealth from property ownership is skewed, with higher-wealth households holding a disproportionate share of housing wealth overall—and an even more disproportionate share of housing wealth from nonprimary residences because they are much more likely to own nonprimary residential property.
- City residents suffer when STRs circumvent zoning laws that ban lodging businesses from residential neighborhoods. The status quo of zoning regulations in cities reflects a broad presumption that short-term travelers likely impose greater externalities on long-term residents than do other long-term residents. Externalities are economic costs that are borne by people not directly engaged in a transaction. In the case of neighbors on a street with short-term renters, externalities include noise and stress on neighborhood infrastructure like trash pickup. These externalities are why hotels are clustered away from residential areas. Many STR units are in violation of local zoning regulations, and there is the strong possibility that these units are indeed imposing large costs on neighbors.

WHEREAS, Arizona preempts local government from regulating short term rentals to a much higher degree than other states;

WHEREAS, reasonable local regulations on STRs as to numbers and locations can strike a balance between property owners' rights to fair use of their properties and the rights of surrounding property owners to set and maintain community standards;

WHEREAS, returning local control over short-term rentals shares bipartisan support in the Arizona Legislature;

WHEREAS, every community is different when it comes to what works and what doesn't. What may work in one community could potentially be a complete disaster in another community, necessitating a return of local control over the regulation of STRs;

WHEREAS, regulating STRs means looking at the different variables and planning objectives of each community and taking them into consideration, such as housing costs, the general appetite for visitors, availability of traditional lodging, the value of tourism, the percent of existing STRs, and more;

WHEREAS, even within Sedona, there are differing built neighborhoods, some being generally denser with narrower streets and limited off-street parking more impacted by commerce and tourists than other neighborhoods of the City, circumstances that require careful consideration if the residential character of these neighborhoods is to be protected;

WHEREAS, absent appropriate controls on the number and manner and places of operation of STRs, neighborhoods stand to be harmed by undue commercialization and disruption to the primary and overarching purpose of a neighborhood being first and foremost a residential community, where people actually live, not a place of transient occupancy;

WHEREAS, with state preemption, these critical elements are being overlooked;

WHEREAS, reasonable local regulations on the number and location of short-term rentals will balance Sedona's desire to promote economic development and tourism with Sedona's legitimate need to mitigate the adverse impacts often associated with STRs, including the decline in workforce housing, a general decrease of long-term housing availability which contributes to increasing housing and rental prices, excessive noise, overcrowding, reduction of street parking, and the accumulation of trash.

NOW, THEREFORE, BE IT RESOLVED BY THE MAYOR AND COUNCIL OF THE CITY OF SEDONA AS FOLLOWS:

SECTION 1. The City of Sedona declares that a housing shortage emergency exists within our City and region and recognizes the need to make housing a leading priority for the community.

SECTION 2. The City of Sedona recognizes that the housing shortage emergency is exacerbated by the proliferation of short-term rentals and requests the State Legislature return local control to cities, towns, and counties to implement reasonable zoning restrictions on STRs, including limitations on the number and location of short-term rentals.

SECTION 3. The City of Sedona calls on the Legislature and Governor of the State of Arizona to allow local governments to adopt reasonable regulations on the number and location of STRs as to strike a balance between property owners' rights to fair use of their properties and the rights of surrounding property owners to set and maintain community standards.

SECTION 4. The City of Sedona invites similarly situated cities, towns, and counties to pass their own resolution declaring a housing shortage emergency because of the proliferation of STRs.

APPROVED AND ADOPTED by the mayor and council of the city of Sedona, Arizona, this 10th day of December, 2024.

Scott M. Jablow, Mayor

ATTEST:

JoAnne Cook, City Clerk

APPROVED AS TO FORM:

Kurt W. Christianson, City Attorney