



## MEMORANDUM

**TO:** CITY COUNCIL

**FROM:** WHITNEY MCDONALD, CITY MANAGER

**BY:** JESSICA MATSON, LEGISLATIVE & INFORMATION SERVICES  
DIRECTOR/CITY CLERK

**SUBJECT:** CONSIDERATION OF APPROVAL OF LETTER OF SUPPORT FOR  
SENATE BILL 555 – SHORT-TERM VACATION RENTALS STATEWIDE  
TRANSIT OCCUPANCY TAX COLLECTION

**DATE:** MAY 11, 2021

### **SUMMARY OF ACTION:**

Consider approval of a letter to the California Senate expressing support for Senate Bill (SB) 555 addressing collection of transient occupancy taxes (TOT) on short-term rentals and authorize the Mayor to sign the letter.

### **IMPACT ON FINANCIAL AND PERSONNEL RESOURCES:**

Minimal staff time was necessary to prepare the letter and staff report for this item. SB 555 has the potential to increase TOT revenue received by the City from existing and future short-term rentals.

### **RECOMMENDATION:**

It is recommended the City Council approve a letter of support to the California Senate for SB 555, collection of TOT on short-term rentals, and authorize the Mayor to sign the letter.

### **BACKGROUND:**

State law allows cities and counties to levy a tax (TOT) for occupying a room or rooms, or other living space, in a hotel, inn, tourist home, motel, or other lodging unless the occupancy is for a period of more than 30 days. TOT are typically collected by lodging providers as an itemized charge based on a percentage of a customer's bill. In California, nearly every city and 55 of 58 counties levy a TOT, mostly for general revenue purposes.

The City of Arroyo Grande is actively pursuing methods for revenue generation and collection. In 2020, City Council expressed interest in researching a host compliance option to collect unpaid TOT from short-term rentals. City staff are working with the South County Chambers of Commerce and the Arroyo Grande Tourism Business Improvement District (AGTBID) to evaluate options after an attempt to contract with Airbnb for collection

**CITY COUNCIL  
CONSIDERATION OF APPROVAL OF LETTER OF SUPPORT FOR SENATE BILL 555  
– SHORT-TERM VACATION RENTALS STATEWIDE TRANSIT OCCUPANCY TAX  
COLLECTION  
MAY 11, 2021  
PAGE 2**

services from its participating short-term vacation rental units was unsuccessful due to changes in Airbnb's service level as impacted by the COVID-19 pandemic.

In April 2021, Senate Bill No. 555 (SB 555) was introduced by Senator McGuire. The proposed bill establishes a new, innovative, and streamlined statewide system for collecting and dispensing TOT revenue for online vacation hosting platforms. This bill will ensure that cities and counties will receive the revenues collected in their jurisdiction that they are entitled to from all short-term rentals that are participating in any online hosting platform, such as Airbnb or VRBO. This would be a voluntary service available to cities and counties.

At its April 26, 2021, the AGTBID Advisory Board approved a letter of support for SB 555. This new legislation will allow the City to pursue the collection of TOT from vacation rentals through a consolidated approach that is likely to capture rentals that have not been paying the tax and that will streamline remittance by the rental owners. Therefore, the AGTBID Advisory Board recommended that the City Council also send a letter of support.

At its April 27, 2021 meeting, City Council expressed support for the item to be placed on a future City Council agenda for consideration and authorization.

**ANALYSIS:**

SB 555 creates a voluntary statewide TOT collection program administered by the California Department of Tax and Fee Administration (CDTFA) on behalf of cities and counties who choose to participate.

If a local agency enacts an ordinance to participate and enters into an agreement with CDTFA, Airbnb and other online platforms would collect the appropriate TOT from customers whenever a customer books a short-term rental in a participating jurisdiction. The platform would then remit funds collected to CDTFA, which in turn would distribute revenue to the appropriate local agency after deducting minor administrative costs.

Local agencies who want to continue their current collection efforts are not required to participate in the program, but those who do, will receive quarterly TOT distributions from CDTFA similar to sales and use taxes. The other benefits to this legislation include: instead of complying with multiple city and county enforcement requirements, platforms should have reduced compliance burdens when interfacing with a single state collections agency; and local agencies can choose to exit the program at any time, as well as adjust the TOT rate used by CDTFA to collect the tax, so long as it gives sufficient notice.

SB 555 neither alters local enforcement powers regarding the use of property as a short-term rental, nor affects the ability of a property owner to use his or her property for short-term rental purposes.

**CITY COUNCIL  
CONSIDERATION OF APPROVAL OF LETTER OF SUPPORT FOR SENATE BILL 555  
– SHORT-TERM VACATION RENTALS STATEWIDE TRANSIT OCCUPANCY TAX  
COLLECTION  
MAY 11, 2021  
PAGE 3**

A draft letter of support for SB 555 is attached to this report (Attachment 1) for consideration. Staff is recommending that the City Council approve the letter of support and authorize the Mayor to sign the letter.

**ALTERNATIVES:**

The following alternatives are provided for the Council's consideration:

1. Approve the letter of support for SB 555 and authorize the Mayor to sign the letter;
2. Modify and approve the letter of support for SB 555 and authorize the Mayor to sign the letter;
3. Do not approve the letter of support for SB 555;
4. Provide other direction to staff.

**ADVANTAGES:**

Supporting SB 555 has the potential to increase TOT revenue received by the City from existing and future short-term rentals.

**DISADVANTAGES:**

No disadvantages are identified.

**PUBLIC NOTIFICATION AND COMMENTS:**

The Agenda was posted at City Hall and on the City's website in accordance with Government Code Section 54954.2.

**Attachments:**

1. Draft Letter of Support to California Senate for SB 555

May 12, 2021

Office of California Senator Mike McGuire  
State Capitol, Room 5061  
Sacramento, CA 95814-4900

**SUBJECT: SUPPORT FOR SENATE BILL 555**

Dear California Senators,

We would like to offer our support of Senate Bill No. 555 (SB 555) introduced by Senator McGuire. This bill would assist local agencies' efforts to collect transient occupancy taxes on short-term rentals. Our City Council strongly supports this bill.

State law allows cities and counties to levy a tax (TOT) for occupying a room or rooms, or other living space, in a hotel, inn, tourist home, motel, or other lodging unless the occupancy is for a period of more than 30 days. TOT are typically collected by lodging providers as an itemized charge based on a percentage of a customer's bill. In California, nearly every city and 55 of 58 counties levy a TOT, mostly for general revenue purposes. The City of Arroyo Grande relies on TOT as an important funding source for essential government services and to support local economic development.

The City of Arroyo Grande is actively pursuing methods for revenue generation, including increased collection efforts of unpaid TOT from short-term rentals. Some cities and counties in California have benefitted from individual agreements with Airbnb to collect and remit TOT owed to their jurisdictions from short-term rentals in their jurisdictions. However, our efforts to secure a similar agreement have been unsuccessful due to impacts to Airbnb's service levels created by the COVID-19 pandemic. Such an agreement would have increased receipts of TOT to the City while also providing a more convenient and streamlined alternative for vacation rental owners for tracking, collecting, and remitting owed TOT. However, even if such an agreement were possible at this point in time, it would have captured only those rentals using one of several online platforms. SB 555 would resolve all of these issues.

By providing a comprehensive mechanism through the California Department of Tax and Fee Administration (CDTFA) to collect TOT from all online platforms that facilitate short-term rentals in our jurisdiction, SB 555 will both facilitate the collection of unpaid TOT owed to our City and more fairly capture rentals occurring through all online platforms, not just those who have entered into individual agreements with certain jurisdictions in our State.

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Local agencies who want to continue their current collection efforts are not required to participate in the program, but those who do, will receive quarterly TOT distributions from CDTFA similar to sales and use taxes. The other benefits to this legislation include: instead of complying with multiple city and county enforcement requirements, platforms should have reduced compliance burdens when interfacing with a single state collections agency; and local agencies can choose to exit the program at any time, as well as adjust the TOT rate used by CDTFA to collect the tax, so long as it gives sufficient notice.

SB 555 neither alters local enforcement powers regarding the use of property as a short-term rental, nor affects the ability of a property owner to use his or her property for short-term rental purposes.

The City Council of the City of Arroyo Grande strongly recommends passage of SB 555. We appreciate your attention and hope you join us in our support of SB 555.

Sincerely,

Mayor Caren Ray Russom

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