

CITY OF WAUWATOSA
MEMO

To: **Community Affairs Committee**

From: **Laura Stephens, Health Officer, Meghan Spredemann, Public Health Manager,
and Alan Kesner, City Attorney**

Date: **October 31, 2023**

Subject: **Short Term Rental Licensing Options**

A. Issue

The Wauwatosa Health Department is proposing a new program to license and inspect short-term rental properties. This issue was originally proposed to the Community Affairs Committee on September 26 and October 10, 2023, along with memos detailing the program. This memo is to provide additional options for licensing fees and requirements.

B. Background/Options

The original proposal for licensing STRs included a one-time \$385 pre-inspection fee for all first-time applicants as well as a \$160 annual licensing fee. The options below offer alternatives to these fees.

Option 1: Reduced Pre-Inspection Fee

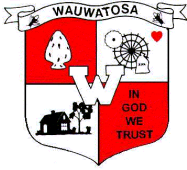
Pre-inspection fee: \$160

Annual license fee: \$160

Tiered licensing options based on STR size or number of rental days pose logistical challenges for the Health Department (see options 2 and 3 for more detail). These challenges will add additional administrative labor to the department's workload. As an alternative, the Health Department is proposing the addition of a new, separate pre-inspection fee for STRs instead of the existing pre-inspection fee in the consolidated fee schedule.

The current pre-inspection fee for the 2024 fee schedule is \$385. The Health Department recognizes that this may be financially burdensome for STR owners who have a lower nightly rate or only rent their property for a certain number of days per year. Because it takes more time to inspect and license new STRs, first-time applicants are charged a pre-inspection fee in addition to the annual license fee. We propose a pre-inspection fee that matches the annual license fee: \$160. This means first-time applicants will pay \$320 the first year and \$160 each year after. A pre-inspection fee of \$160 will still cover the costs of the program but will be more affordable for all STR owners.

This option would ensure the least amount of administrative work for the health department since all STRs would be charged the same license fee and staff would not need to identify and calculate a tiered license fee. The table below shows the gross revenue estimates based on these rates.



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Possible STR Count	2024 Revenue Estimate (pre-inspection fee + annual license fee)	Annual Revenue Estimate (annual license fee)
50	\$16,000	\$8,000
100	\$32,000	\$16,000
150	\$48,000	\$24,000
200	\$64,000	\$32,000

Option 2: Tiered license fees based on size

Simple: \$80

Moderate: \$160

Complex: \$320

STRs come in a variety of shapes and sizes. Some include the entire unit (house, condo, apartment) while others are partial units. Because of this, there is inconsistency in the amount of time it takes to inspect these properties. For example, a full home rental may consist of a one-bedroom apartment while others are multi-room homes. Similarly, partial rentals can consist of a single bedroom/bathroom while others may involve a room rental with access to shared living spaces, including the kitchen.

When the Health Department licenses restaurants, we use a point system to determine whether an establishment is simple, moderate, or complex. This option proposes a similar model based on the inspection requirements and the time and resources that are required to complete an inspection.

A baseline STR with one bedroom, one bathroom, no kitchen, and no additional shared spaces in the home would get 0 points. Each additional item in the inspection checklist would add points, depending on the complexity of the inspection. The total points for the STR would determine if they receive a simple license (\$80), moderate license (\$160), or complex license (\$320).

- 0 points: one bedroom/one bathroom, no kitchen, no shared spaces
- +0.25 points for each deck, patio, or balcony
- +0.5 points for shared living spaces
- +1 point for each additional bedroom
- +1 point for each additional bathroom
- +2 points for kitchen

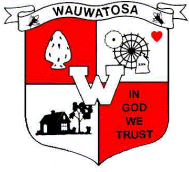
Total:

0 points: simple license (\$80)

0.25-4.5 points: moderate license (\$160)

4.5+ points: complex license (\$320)

This model allows STR owners with smaller units (which typically have a lower nightly rate) to pay a lower annual license fee. Larger homes (which typically have a higher nightly rate) are charged a higher



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license fee based on the increased complexity of their inspection. The points and complexity can also be easily verified by staff during an inspection.

This tiered license option would still include a pre-inspection fee. This could be the original fee (\$385) or the reduced fee proposed in Option 1 (\$160).

Option 3: Tiered license fee based on number of days rented – **Not Recommended**

180 days or fewer: \$80

More than 180 days: \$160

In this model, STRs that are rented out 180 days or fewer in the license year would be charged an \$80 license fee while STRs rented out for more than 180 days would be charged \$160.

While this option would be more cost-effective for STR owners who rent their property for fewer days throughout the year, it is nearly impossible for Health Department staff to monitor and enforce this. STR owners would have to indicate the number of days they intend to rent during the license year and Health Department staff would have no way to confirm this. There would also be challenges if an STR owner decided to rent more/less than originally indicated.

Additionally, staff time and costs spent on the program are the same no matter how many days the property is rented. The resources needed to license and inspect and STR are size-dependent, but are not affected by rental days.

Program costs:

Based on the inspection and licensing process for our other establishments, we estimate that the average pre-inspection for STRs will take about 1.5 hours and an average annual inspection will take 1 hour. The administrative and licensing process for first-time applicants will take 1.5 hours of admin work, with an average of 1 hour of work for the annual renewal process.

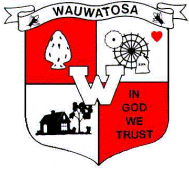
For first time applicants, this is a total of 3 administrative and inspecting hours. For annual renewals, this would be 2 hours. There will be additional time spent on identifying properties, communicating to owners, scheduling, data entry, and updating the website. There will also be costs for license mailings, mileage reimbursement, and program supplies.

Assuming there are about 150 STRs in the city of Wauwatosa, we estimate the program will cost approx. \$15,000 to run in 2024 and approx. \$12,000 each year after.

C. Strategic Plan (Area of Focus)

Priority 5: Quality of Life

Goal 2: Align public health resources in the City with those across the region and state.



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D. Fiscal Impact

The revenue generated from this program will depend on the total number of STRs in the city and the option chosen.

E. Recommendation

Without licensing and regulation, we will continue to be out of alignment with the DATCP MOA. The staff recommend implementing an STR licensing and inspection program. Based on the options provided, staff recommend adopting the regulations as outlined in previous memos on this item, to include one of the fee structures described in Option 1 or Option 2, above.