THE UNIVERSITY OF RHODE ISLAND

Short-Term Rentals in Rhode Island

Prepared for:

Rhode Island League of Cities and Towns

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Executive Summary

This report was requested by the Rhode Island League of Cities and Towns with the overall aim of creating a universal tool municipalities could use in managing short-term rentals (e.g., Airbnb, Homeaway, etc). Upon studying the current environment for short-term rentals, the complexities associated with the short-term rental marketplace became clear and made evident how such a tool does not fit the current Rhode Island short-term rental economy. Instead, this report proposes policy options for Rhode Island cities and towns to adopt after taking into account the unique context and characteristics of each jurisdiction. The analysis included here examines the economic and social benefits of short-term rentals while also providing policy recommendations to lower the potential drawbacks of a burgeoning short-term rental market. The rise of short-term rentals presents new and complex policy questions for state and local policymakers; the effective management of registration and enforcement, taxation, nuisance considerations, and housing stock implications all merit consideration. Although short-term rental properties are required to collect and remit taxes - similar to hotels - the process is largely self-policed by the housing platforms themselves and the tax rates cannot be changed by individual municipalities without General Assembly approval. The same statutes requiring General Assembly approval for tax rate changes also prohibit municipalities from banning the listing of short-term rental services by property owners, which means there are litigation risks associated with these regulations. To address some of the drawbacks associated with short-term rentals, we recommend the creation of regulations that deal with numerous issues concurrently rather than addressing each potential issue individually. Residency restrictions (i.e. property operators must reside in property being offered as short-term rental) and quantitative restrictions (e.g. maximum number of days a short-term rental may be offered, maximum number of short-term rentals per municipality, etc.) each allow for addressing both nuisance and housing stock concerns. Enforcement mechanisms we discuss include free permitting, third-party monitoring, and direct municipal oversight.

Background

Introduction

A short-term rental (STR) is usually defined as a rental of a residential dwelling unit or accessory building for periods of less than 30 consecutive days. In some communities, STR housing may be referred to as vacation rentals, transient rentals, short-term vacation rentals, or resort dwelling units. STRs can be owner-occupied or non owner-occupied dwellings and operators can rent out entire homes, apartments, or rooms. Many STRs are advertised using online hosting platforms such as Airbnb, VRBO, and FlipKey. These websites have created a surge in STRs, which are spread all over the country. The number of STRs has grown at a 45 percent annual rate over the past five years and is expected to continue growing in the foreseeable future (Host Compliance, 2018).

Rhode Island Context

Legislative history.

To regulate the STR industry, Rhode Island legislators introduced legislation in 2015 that expanded the state's hotel tax to include STRs of residential property, including the rental of vacation homes and beach cottages. The bill was supported by Governor Gina Raimondo's administration and the Rhode Island Commerce Corporation. Proponents of the 2015 law projected that the collective 13 percent tax would generate $7.1 million per year that could be used to support the state's tourism sector (Parker, 2018). Rhode Island landlords, local and state property owner associations, and home sharing platforms like Airbnb opposed the hotel tax. Landlords considered it inconvenient and predicted that it would discourage property owners from renting properties (Shalvey, 2015). Despite opposition from this coalition, the legislation passed on June 30, 2015, requiring STR operators to pay the state's five percent hotel tax for accommodations, including apartments, beach houses or cottages, condominiums, houses, and mobile homes. The law requires 25 percent of the hotel tax to be allocated to the municipality in which the STR or hotel is located. In addition, the 2015 legislation also amended Chapter 42-63.1 of the Rhode Island General Laws entitled "Tourism and Development" to include a provision preventing any city or town from prohibiting the listing of housing units on STR platforms by property owners (Rhode Island Department of Revenue, 2015).

In May 2018, the "Relating to Property - Short-Term Rentals Act" was considered but eventually held for further study by the General Assembly as an amendment to Title 34 of the General Laws entitled "Property." The "Short-Term Rentals Act" amendment sought to clarify language that defined STR listing services, STR providers, and STR transactions, in addition to addressing affordable housing concerns, local control, safety and health, insurance, accessibility requirements, civil rights, posting of rates, and penalty concerns for STR transactions. The proposal included an amendment to Title 34 of the General Laws entitled “Property”, which addressed safety and health concerns while also defining safety and health standards for STR operators. This includes safety and health standards that require operators to maintain STR facilities in a sanitary condition while also meeting healthy and safety standards such as installation of functioning extinguishers, smoke detectors, and carbon monoxide detectors. RI General Law § 45-24.3-8 states an STR provider may not rent a unit to another person without first thoroughly cleaning the unit and providing clean and sanitary sheets, towels, and pillowcases. In addition, the STR facility shall have a clearly visible list of emergency information posted. While this particular act was not passed, it does indicate that STRs and their impacts are still being considered and further legislation may be proposed.

Current Rhode Island regulation - registration and taxation.

An STR is a rental property that is rented for no longer than 30 days. In Rhode Island, STR operators must register with the Rhode Island Division of Taxation, pay the annual ten dollar sales tax permit fee, and collect and remit the sales tax and the hotel tax if independently advertising STRs (i.e., not through a hosting platform such as Airbnb). If an online platform is used, Rhode Island law requires the hosting platforms to register with the state’s Division of Taxation, charge and collect the tax, and remit the tax to the Division of Taxation (Rhode Island Department of Revenue, 2018). Registration requires completing a business application either online or at the Division of Taxation. For STRs of an entire house, entire condominium, entire apartment, or other such residential dwelling, operators must collect and remit the seven percent sales tax and the one percent local hotel tax, for a total taxation rate of eight percent (the five percent statewide hotel tax does not apply). For room rentals of 30 days or less, the seven percent Rhode Island sales tax applies along with the one percent local hotel tax and the five percent statewide hotel tax for a total taxation rate of thirteen percent (Rhode Island Department of Revenue, 2018). The one percent local hotel tax and 25 percent of the local share of the state’s five percent tax was passed and was expected to generate revenue of $10.0 million in FY 2018 and $10.9 million in FY 2019 for distribution to cities and towns (RI Senate, 2018).

History of STRs and the Sharing Economy

The practice and culture of sharing has become so integrated with technology that it is now referred to as the sharing economy. While the sharing economy traces its historical roots to colonial times, its fusion with modern day technology has caused it to become more widespread through online STR platforms like Airbnb (Jefferson-Jones, 2014). The growth of STR platforms has caused lawmakers to begin addressing the potential social and economic consequences of STRs. These benefits include allowing STR operators to efficiently utilize space in their homes while generating additional income, and increasing economic activity and revenue in areas that are not normally visited by tourists. The benefits of STRs, however, must be considered along with their potential downsides, which include their effect on the local housing market and neighborhood complaints.

Community Impact

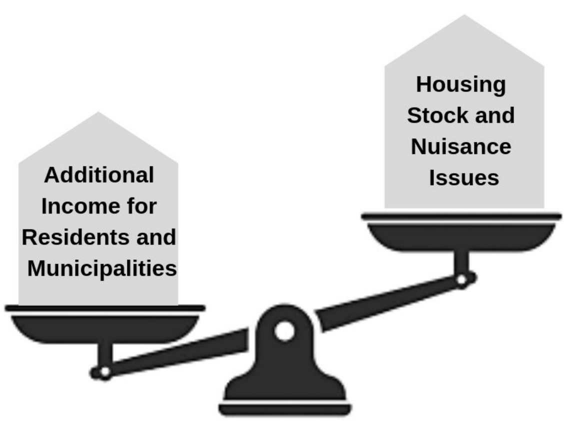
Neighborhood effects.

Residents in close proximity to STRs have complained about their effect on neighborhoods. STRs are typically associated with noise and nuisance complaints created by unknown visitors. The negative effects that are created include increased competition for parking spaces, increased traffic, and higher usage of local neighborhood resources like community beaches. A perception also exists that transient STR tenants care less for public and private spaces than permanent residents and have caused lasting damage to surrounding areas (Edelman & Geradin, 2015). As a result of these nuisances, it has become common practice for private condominiums and apartments to set their own rules regarding STRs so that some buildings allow them, while others do not (Edelman & Geradin, 2015). STRs have also been found to reduce the amount of affordable housing stock (Gurran & Phibbs, 2017). If properties are bought and used for the primary purpose of being rented out as STRs, the properties become no longer available as a long-term housing option. One study of STRs in Los Angeles found that STRs cause gentrification in surrounding communities, reduce socioeconomic integration, and exacerbate racial and socioeconomic inequality (Lee, 2016).

Economic Impact

Impact on the housing market.

There is an existing debate as to whether or not STRs increase housing costs, or if they allow low income property owners to acquire and save money to offset the costs of homeownership (Kaplan & Nadler, 2015). For some homeowners, STR arrangements increase home and neighborhood property values (Jefferson-Jones, 2015). The income that is added through STRs allow homeowners to pay off mortgages earlier, while also allowing them to finance improvements to their properties that attract STR customers and improve the desirability of the community (Lee, 2016). STRs also distribute housing resources more efficiently, where bedrooms which may have otherwise been unoccupied can be used (Palombo, 2015). Kaplan and Nader (2015) found that fewer than two percent of users have three or more listings, suggesting that very few users are listing at a commercial level. STRs are dispersed around wide areas, but demand is not as high for those far from city centers (Quattrone et al., 2016). Consequently, there will be greater effects on the housing market in areas with higher population density as STR transactions increase the prevalence of frequent short-term renters and reduce the supply of properties to be otherwise used for long-term residents (Lee, 2016). Cities and towns have responded to the negative effect of STRs on local housing markets in different ways. For example, San Francisco has taken a strong regulatory approach and requires rental operators to obtain permits, which are only granted to homeowners with a regular presence on the property. A similar regulation was passed in Boston to prevent STRs from removing affordable housing stock from the market.



Impact on the hotel industry.

Researchers have argued that STRs are a form of disruptive innovation that will harm the hotel industry (Guttentag, 2015). Disruptive innovation theory describes how products can, over time, transform a market and capture mainstream consumers. The improvement of the disruptive product eventually causes it to become more appealing to customers and thus significantly impacts existing businesses. Airbnb, for instance, has grown to be the largest home sharing enterprise in the world, having hosted more than 60 million guests to date (Horn & Merante, 2017). Its rapid popularity has sparked concern over whether STRs threaten the traditional accommodation sector. Some researchers have discovered that the number of Airbnb listings negatively affects hotel revenue in regions where both exist, particularly low-end hotels without conference spaces (Oskam & Boswijk, 2016). In one Texas market, every one percent increase of new Airbnb listings caused a .05 percent drop in hotel industry revenue (Kaplan & Nadler, 2015). An additional study strongly suggests that Airbnb provides a viable, but imperfect, alternative for certain types of overnight accommodation. Lower-end hotels and hotels not catering to business travelers are highly vulnerable to increased competition from rentals enabled by firms like Airbnb (Zervas, Proserpio and Byers, 2017). Another analysis demonstrated how some hosts signaled a preference or expectation for guests of lower income levels by self-identifying the service as a low-cost option targeted toward frugal and less discerning guests (Lutz & Newland, 2017). Studies also demonstrate that STRs minimally impact the hotel industry and that hotels are beginning to list vacancies on STR platforms (Edelman & Geradin, 2015).

Economic development.

STR platforms utilize real-time market conditions to deliver efficiencies in pricing. Airbnb was designed to address the influx of prices caused by high-demand events like conferences (Edelman & Geradin, 2015). Research shows that Airbnb guests tend to stay an average of two days longer than typical hotel guests (Kaplan & Nadler, 2015). During 2012-2013 alone, Airbnb guests spent $632 million in New York City and supported over 4,000 jobs. Furthermore, Airbnb argues that its offerings expand tourism to areas at such a rate that hotels benefit from the increased overall market demand for accommodations (Boswijk, 2016). Moreover, STRs provide market segment fulfillment for consumers seeking sharing (particularly of a home), practical novelty, and interaction novelty, which further supports increased tourism in a way that hotels cannot (Guttentag, 2016). The income effect is also significant and positive, demonstrating that guests higher in socioeconomic status are more likely to book an entire home than consumers of lower socioeconomic status, providing further market segment fulfillment by drawing in customers that are not attracted by hotels (Lutz & Newlands, 2017).

The capacity for individual residences in neighborhoods to offer one or more rooms via STR platforms carries substantial potential financial benefits to homeowners in particular and the neighborhood at large (Palombo, 2015). Airbnb contends that STR platforms and home sharing allows visitors to stay longer, spend more money, and provide more income to the local community (Boswijk, 2016). In an Oregon study, some cities indicated that STRs provide new tax revenues and support for tourism by providing additional lodging options and, thus, drawing tourists into areas they might not have otherwise visited (DiNatale, Lewis & Parker, 2017). STRs also keep guests away from centrally located hotels, which provides an opportunity for additional neighborhood improvement via homeowner revenue increases (Kaplan & Nadler, 2015). The neighborhood improvement may also come via the shared city initiative where owners of Airbnb properties can donate part of each stay toward supporting community-based activities (Palombo, 2015).

Source: Airbnb.com, 2018

Regulatory Implications

STRs blur the distinction between commercial and residential activity, which makes applying municipal land-use regulations difficult (Gurran & Phibbs, 2017). Cities seek to stimulate the positive economic effects of STRs for the tourism industry, local entrepreneurs, and its hosts while minimizing two negative effects that rank high among the concerns of residents: (1) the shortage of affordable housing and (2) neighborhood changes (Nieuwland & Van Melik, 2018). Nieuwland and Van Melik (2018) published a study where they found three general regulatory approaches to STRs – prohibition, laissez-faire, and allowing STRs with certain restrictions. The first approach bans STRs altogether in an entire community or certain district. Although this approach countered the negative effects of STRs, local governments sacrificed tax revenues and added homeowner income, while also creating an underground market for STRs (Nieuwland & Van Melik, 2018). The laissez-faire approach prescribes not interfering with the industry and proposes no regulatory options. The most commonly adopted approach is the third one, which permits STRs with restrictions.

Numerous regulatory options exist under this third option, including an STR permitting process limiting the amount of permits per neighborhood (or square mile), prohibiting "conversion" by stopping landlords with no-fault evictions from listing as STRs for one year, and allowing STRs only in buildings that meet an inclusionary housing threshold where a certain percentage of the units in the building are deemed affordable long-term housing (Lee, 2016). Nieuwland and Van Melik (2018) identify the following as the four overall types of restrictions: quantitative restrictions limiting the amount of STRs, the number of visitors, the number of days, and the number of times an Airbnb can be rented out per year; locational restrictions confining STRs to certain locations; density restrictions limiting the number of STRs in certain neighborhoods; and lastly, qualitative restrictions limiting STRs by defined type of accommodation (i.e., complete apartment, room, commercial-style Airbnb, etc.).

Problem Identification and Policy Alternatives

Nuisance

This section of our policy analysis will focus on the problems that arise when STRs become more prevalent in communities. The most common complaints that occur involve nuisance behavior, such as loud noise, increased trash, parking issues, and additional traffic. Neighbors in proximity to STRs have complained of late night check-ins, loud music and backyard gatherings after bar hours, the late night use of outdoor hot tubs, marijuana smoke, and loud profanity (Weisburg, 2016). Residents have also voiced concerns about neighborhood preservation as transient visitors have become more prevalent in neighborhoods. Permanent residents argue that short-term tenants are without ties to the neighborhood and therefore do not reflect the community's values (Jefferson-Jones, 2015). Local residents also argue that residential areas are not zoned for lodging purposes. Although hosting platforms claim that these types of complaints are uncommon, nuisance behavior is a very real issue for local residents living near STR properties. For Rhode Island communities confronting issues relating to nuisances, we have explored several alternative policy responses that may be available to them. They include the following:

Alternative 1: Require renters to agree to "house policies."

One approach to handling nuisance behavior is to require renters to agree to "house policies." In Miami, rental operators must provide written notice to transient occupants of vacation rental standards and regulations for noise, public nuisance, parking, solid waste collection, and common area usage (Miami-Dade County, 2018). Similarly, in Maui, rental operators are required to post house policies, which must be signed by renters. House policies in Maui must include quiet hours from 9:00 p.m. to 8:00 a.m., during which time the noise from STRs shall not unreasonably disturb adjacent neighbors. Sound that is audible beyond the property boundaries during non-quiet hours shall not be more excessive than would be otherwise associated with a residential area. Maui County also requires rules on parking and group gatherings to be included in STR house policies. Vehicles must be parked in designated onsite parking areas and they are not to be parked on the street. Finally, the policy associated with the property must state that no parties or group gatherings other than registered guests shall occur (Code of the County of Maui, Hawaii. Title 19, Article IV., Chapter 19.65). One clear benefit of considering the posting of house rules as a regulatory alternative is that there is minimal financial cost related to posting written rules. One downside, however, is that it will be difficult to these rules without and enforcement mechanism that requires routine inspections and the imposing of fines, which will be discussed later in this section.

Alternative 2: Financial penalties.

In response to neighborhood nuisance, cities and towns can impose fines on the offending STR operator or on property renters. Under this type of response, STR operators are responsible for having written rules in place regarding noise, trash, and parking, while also notifying renters of fines associated with noncompliance. Written notice would be necessary to ensure renters are aware of STR policies and will have an opportunity to abide by them. A positive aspect of this option is that it carries with it a deterrent effect, which may stop unwanted nuisances from occurring in the first place. High fines levied on property owners for a guest's nuisance behavior may give hosts a stronger financial incentive to require more respectful behavior from guests or to carefully examine the background of guests renting the property. Another option is to place the burden of compliance on the renters. A major financial incentive exists for renters to comply with nuisance rules and regulations, because so many of them are motivated by the financial savings associated with STRs. Fines can also be used to fund resources that help ensure greater STR regulatory compliance, such as hiring a municipal employee responsible for enforcing the local STR laws. One downside to this alternative is that imposing high fines may ultimately deter STR operators from renting their properties, which may lower the number of available STR properties.

Alternative 3: Require STRs to be owner-occupied.

Requiring primary residence is not an uncommon response for addressing STR issues. This action prevents commercial operators (those who rent three or more properties) from large-scale renting. The City of San Francisco allows a host to register his or her primary residence only, defined as the place where the host resides 275 calendar days per year (San Francisco Office of Short-term Rentals, 2018). For 275 calendar days, the property will not be used as an STR as it will be used as a primary residence. Without this restriction, a property can be used as an STR every day of the year. Since this regulation limits the amount of time a property can be used as an STR, opportunities to generate nuisances are fewer. Boston is another city that requires tenants and investors to occupy their rental units in order to list properties as STRs. One downside to this approach is that it will be met with fierce criticism or possible lawsuits from commercial operators and owners who have purchased property for the sole purpose of using them as STRs. The benefit of this option is that requiring operators to claim primary residence of their properties may encourage the rentals to become long-term rentals that add to the available housing stock. San Francisco and Boston are cities with housing shortage concerns, so this type of regulation is a particularly beneficial way to respond to this problem.

Alternative 4: Frequency restrictions.

Another way to address nuisance behavior is to limit the number of days renting can occur on STR properties. San Francisco limits rentals to a maximum of 90 days per year when the host is not present in the unit. Property owners violating the ordinance are fined $484 for the first offense and up to $968 for repeat offenses (San Francisco Office of Short-term Rentals, 2018). Similarly, in London, a property can be used as an STR for a maximum of 90 days per year. The downside of this approach is that it restricts the way owners can use their property and will cause opposition from STR operators. Moreover, enforcement of this regulation poses its own challenges in that it will require municipalities to develop systems that monitor the number of days STR properties are being used as rentals. San Francisco is one of the only cities with an Office of Short-term Rentals to handle all STR matters. As we will discuss in a later section, creating a separate office to respond to STR matters is costly because it involves staffing and financing a new organizational unit.

Alternative 5: Restrict occupancy.

Another way to limit nuisance complaints is to place limits on the number of occupants allowed per household or per room. This alternative is aimed at preventing loud parties on STR properties. In Miami, the maximum overnight occupancy is two people per bedroom, plus two additional people per property, up to a maximum of 12 people, excluding children under three. In Maui, guests must agree to a policy of no parties or group gatherings. The downside of this alternative is that it limits the number of people and, thus, limits the potential for additional local revenue by placing limits on occupancy. Allowing more people into cities and towns allows visitors to spend money in restaurants and bars, movie theaters, and other locations. Another shortcoming is that regulation would be difficult as there is no way to ensure compliance from renters because STR renters can secretly invite additional guests to the property without the property owner's knowledge. Furthermore, limiting the number of guests does not promise that noise will be abated because noise can be generated by any group, no matter how small. The benefit of this alternative is that it minimizes nuisance behavior by restricting parties and minimizes the potential for noise and neighborhood nuisance.

Solutions to Nusiance

- Create and Post Rules
- Fine Operators or Renters for Violations
- Allow Only Owner-Occupied STRs
- Limit Number of Nights an STR Can Operate
- Limit the Number of Visitors per STR

Housing Stock

The effect on housing stock is another common issue arising with the growth of STRs in communities. In this section we focus on several emerging issues regarding both documented and anticipated STR impacts on housing stock. The two main issues relating to housing stock that we analyzed for this report include hotelization and low- and moderate-income housing impact. An analysis of these impacts on RI municipalities and our associated recommendations follow.

Hotelization.

Hotelization occurs when property owners convert housing units from long-term rentals to STRs with the aim of making more money. These property owners usually have more than one listing on STR platforms, with two listings being the most common. Property owners with three or more listings are considered to be commercial operators, which make up only three percent of Airbnb property owners nationally (Kaplan and Nadler, 2015). Both of these aforementioned instances - two property listings by one owner and three or more listings by another owner - remove long-term housing from the market. Kaplan and Nadler (2015) identify a more malicious form of hotelization where landlords of large apartment complexes pursue no-fault evictions of tenants in order to turn their complexes into more profitable large-scale STR's. Abcarian (2015) interviewed one tenant from San Francisco who was not allowed to renew her long-term lease, which was then listed as an STR for $250 per night. Higher rates of hotelization not only lead to reductions in long-term housing, but also cause an increase in the cost of existing long-term housing.

In November of 2018, there were a total of 2,758 Airbnb listings in Rhode Island, of which 936, or 33 percent, are hosted by commercial operators (InsideAirbnb.com, 2018).[1] Of those listing STRs in Rhode Island, 169 are commercial operators, comprising 18 percent of all operators in the state. As such, Rhode Island's ratio of commercial Airbnb operators to total operators may be six times greater than the national average. While many of these commercial operators list standard names like "Cindy" or "Mike," several more are listed under names that indicate they are without question commercial operations. These include "Evolve Vacation Rentals" with 26 unique listings, "AMPM Property Management" with 13 unique listings, and "Atlantic Beach Hospitality" with 13 unique listings. Overall, 71 percent of Rhode Island Airbnb listings are whole home rentals and 29 percent are room rentals according to the InsideAirbnb data(2018). In comparison, commercial operators in the state offer 60 percent of their listings as whole home rentals and 40 percent as room rentals (InsideAirbnb.com, 2018). This demonstrates that commercial operators tend to operate both types of STRs - whole home and room rentals - in contrast to some of the national data mentioned above. As a means of preventing hotelization from reducing long-term rental stock, three primary regulations can be imposed: tiered fee structures, time limitations, and owner residency restrictions.

Alternative 1: Tiered fee structure.

One way of addressing the issue of hotelization of STRs is by adopting a tiered registration fee structure. This fee structure progressively increases the cost of offering an STR based upon the number of STRs a single operator runs. Portland, Maine has adopted such a system where operators renting property for less than 30 days must register with the city for $100 annually if listing a single unit. For two units in the same building the fee increases to $250, which increases to $2,000 for five units. For non-owner occupied rentals, a one unit fee is $200 with the fee increasing to $4,000 for those operating five units or more. Discounts are applied for prohibiting smoking, installing sprinkler systems, or having fire alarms that are connected to local fire departments. A $1,000 penalty is fined for providing false information on the registration form (portlandmaine.gov, 2018). One of the key benefits of a tiered STR fee structure is that municipalities can even the playing field between high volume commercial operators and low volume operators, while also keeping incentives in place to discourage the removal of long-term housing. The primary costs of this fee structure are those associated with developing and enforcing a registration process, as well as forgoing the taxes associated with increased STR offerings brought by commercial operators.

Alternative 2: Frequency restrictions.

Frequency restrictions limit the number of days a specific unit is listed on an STR platform. Several options are available for this type of frequency restriction: days per year, days per month, months per year, etc. Rhode Island municipalities near beaches, for instance, may choose to implement frequency restrictions that allow STR listings only during the months of June, July, and August. With South County being a primary housing location for academic-year undergraduate and graduate students from the

[1] This data, as well as all other RI data in this section, is a result of analysis that took place in November 2018. InsideAirbnb data is a snapshot of a moment in time and is the main source of data for several other academic studies (see Gutiérrez et al., 2016; Kakar, Franco, Voelz, & Wu, 2016) on STRs despite its limitations.

University of Rhode Island (URI), restricting STRs to the summer ensures long-term rental availability, while also providing property owners with the best period of the year to offer STRs in a high tourism region. One benefit of this alternative is that it provides greater certainty in preventing the prevalence and growth of commercial operators from reducing long-term housing availability. Although the benefit is more certain, the downside is more pronounced, as well: only allowing STRs for a limited number of days stops property owners from collecting revenue that is earmarked for making improvements to their property.

Alternative 3: Require STRs to be owner-occupied.

An owner residency restriction limits eligibility for STR listings in a particular municipality to just those property owners who reside on the premises of the STR offering. Currently, Boston allows STRs to operate only if they are owner-occupied units (Sokolowsky, 2018), meaning that hotelization is effectively illegal. It is important to note that this option is currently the subject of an Airbnb lawsuit against the city of Boston (Associated Press, 2018). Although this would be a guaranteed means of eliminating hotelization, for some municipalities litigation of this nature may be cost-prohibitive and has substantial potential cost downsides should an STR platform file suit like in Boston.

STR market penetration and low and moderate income housing (LMIH).

Decreased low and moderate income housing availability is perhaps one of the most consequential documented effects of STR prevalence in municipalities. LMIH is also cited as a building block for effective community economic development and facilitating economic growth (Wardrip, Williams, & Hague, 2011; Klacik, 2003). In 2004, the RI General Assembly passed the Low and Moderate Income Housing Act to address this issue. That law recommends that municipalities have at least ten percent of their housing units categorized as LMIH (RIGL 45-53-2). To date, only five municipalities have accomplished this target for affordable housing and so it is important to take into consideration the current state of LMIH in Rhode Island. Table 1 demonstrates market penetration of STRs in all 39 municipalities[2] along with the percentage of all housing in each municipality categorized as LMIH and the change in LMIH from 2014-2017:

[2] STR penetration in the housing market is calculated by taking the number of residential properties offering STRs and dividing this by the total number of housing units in a particular municipality

Table 1

Municipality	STR Penetration	Low and Moderate Income Housing 2017 (LMIH) (%)	LMIH Change 2014-2017 (%)
New Shoreham	5.49%	15.32%	372.84%
Newport	4.79%	10.63%	-30.26%
Middletown	2.99%	5.44%	4.78%
Little Compton	2.78%	0.56%	43.42%
Narragansett	2.67%	3.75%	43.42%
Jamestown	2.06%	4.39%	19.28%
Charlestown	1.09%	2.86%	104.37%
South Kingstown	1.09%	5.61%	23.72%
Portsmouth	0.84%	2.83%	14.51%
Westerly	0.83%	5.22%	20.18%
Providence	0.81%	14.88%	0.06%
Bristol	0.54%	5.93%	1.38%
Tiverton	0.50%	5.09%	7.83%
North Kingstown	0.46%	8.06%	1.18%
East Greenwich	0.35%	4.68%	8.22%
Richmond	0.31%	1.89%	-2.85%
Glocester	0.30%	2.23%	6.64%
Barrington	0.27%	2.66%	9.16%
Warren	0.26%	4.49%	-0.18%
East Providence	0.18%	9.82%	-2.23%
Foster	0.16%	2.05%	5.12%
North Providence	0.14%	6.94%	1.18%
Warwick	0.14%	5.39%	1.34%
Hopkinton	0.14%	7.12%	7.54%
Coventry	0.12%	5.35%	3.55%
Pawtucket	0.12%	8.90%	-1.07%
North Smithfield	0.10%	8.18%	-3.57%
Lincoln	0.09%	6.53%	-4.37%
Burrillville	0.09%	8.81%	7.06%
Cranston	0.09%	5.43%	-0.03%
West Greenwich	0.08%	1.41%	0.58%
Cumberland	0.08%	6.17%	10.59%
West Warwick	0.07%	8.17%	-2.07%
Exeter	0.04%	2.36%	8.10%
Woonsocket	0.04%	15.90%	1.72%
Central Falls	0.03%	11.19%	-6.59%
Smithfield	0.03%	5.09%	-1.19%
Scituate	0.02%	0.85%	8.51%
Johnston	0.01%	8.05%	7.64%
Mean for RI	0.77%	6.16%	17.68%

* LMIH data provided by HousingWorksRI at Roger Williams University
* Airbnb rental data provided by insideairbnb.com

Due to RI state government attempting to influence an increase in LMIH (reflected in an average municipal LMIH increase of 17% across the state) and a burgeoning STR market that is demonstrating growth, there is substantial potential for overlap wherein STR offerings replace LMIH. Given that the vast majority of municipalities in the state do not provide the statutorily recommended minimum amount of LMIH, several regulatory options exist for municipalities to consider: quantitative restrictions, qualitative restrictions, and time-horizon restrictions.

Alternative 1: Quantitative restrictions.

Quantitative restrictions allow STRs only insofar as a certain proportion of all community housing is already designated and available for low and moderate income persons (e.g., ten percent as statutorily recommended). This could be broken down by building, neighborhood, or by taking the LMIH proportion of the municipality as a whole. By ensuring a ready supply of LMIH through a quantitative restriction of STRs, it is possible that lower income persons will have access to affordable dwellings. The feasibility of these regulations hinge on a permitting or licensing process that is in place, as well as adequate tracking of the LMIH proportion of total housing. With this information available, a municipality can restrict new permits from being issued whenever that municipality's annual LMIH data indicates it is not meeting the state statutory recommendation of ten percent.

Another option for quantitative restrictions would be to restrict the number of STR permits or licenses made available through the municipality. This could be done in absolute terms or in proportion to property demographic changes. For example, a municipality of 2,000 households allows permits for 50 STR properties. Or if 40 new houses are built in a municipality, STR permitting can be expanded by one for the following year (maintaining a 2.5% STR penetration rate). By capping the number of STRs, a municipality can quickly control potential LMIH effects from the growing STR market. The most notable downside to all these quantitative restrictions is the capacity required for enforcement and the capping of permits, the loss of tax revenue from not allowing more aggressive STR expansion, and the loss of revenue to property owners.

Alternative 2: Operational restrictions.

Operational restrictions differ from quantitative restrictions in that no limitations are placed on *whether* somebody may offer his or her property as an STR. Rather, operational restrictions limit *how much* of a property can be offered for rent or *how often* that property can be rented. The latter portion is akin to the frequency restrictions noted in the hotelization section. As such, these restrictions limit either the number of rooms that are allowed to be rented per property or the number of times a property is allowed to be rented (per week, per month, etc.). With a system like this being such a complicated undertaking, the primary cost to the municipality of pursuing this type of restriction would be the ongoing collaboration and tracking, along with Airbnb and other rental services, of how often a particular property is rented. The primary benefit of this alternative is that it allows earnings from STR listings, organic growth in property owners that list as STRs, and the preservation of some housing stock for LMIH. Moreover, this alternative also decreases the potential for nuisance issues as noted in the nuisance section of this report.

Alternative 3: Proximity restrictions.

A proximity regulation requires a tracking process, like the permitting and licensing identified with quantitative regulations. However, unlike quantitative restrictions, proximity regulations restrict new STRs from being located within a certain distance of already existing ones. Although this requires substantial public education on the part of the municipality, it allows a more fine-tuned approach to addressing the neighborhood LMIH impacts of STRs. This regulation enables a municipality to ensure STRs are spread throughout the various locales of a particular neighborhood which, in turn, better ensures that LMIH stock can be available throughout the various locales of particular neighborhoods. The primary downside of this alternative is the substantial investment required by a municipality in determining the optimal proximity restriction (e.g. 500 ft, 2 blocks, distance varying by population density, etc.) and utilizing geographical information systems to maintain an accurate database of active STRs that are licensed and permitted.

Solutions to Hotelization/LMIH

- Create Tiered Fee Structure
- Limit Types of STR Offerings
- Allow Only Owner-Occupied STRs
- Limit Number of Nights an STR Can Operate
- Create Proximity Restrictions

Enforcement

Municipalities have adopted a variety of different regulatory measures like those above. We have concluded that enforcement of any alternative that is adopted will pose significant challenges for communities addressing the issue of STRs. Lack of regulatory enforcement allows STR operators to violate municipal ordinances, zoning codes, and required registration procedures without consequence. Hawaii dealt with this issue when STR platforms were not required to register nor comply with STR tax laws. According to Ross Birch, the Executive Director of the Island of Hawaii Visitors Bureau, less than 25 percent of Airbnb and VRBO operators are registered and paying taxes. A total of 2,034 operators are registered compared with 8,647 STR listings (Lauer, 2018). Airbnb does not collect or remit taxes in Hawaii, but legislation is pending that requires software platforms to submit them (Sokolowsky, 2018). Two different lodging standards exist in Rhode Island, one for licensed and inspected hotels and inns, and the other for STR properties, which are not licensed or inspected. This raises questions as to how municipalities should identify STR properties and formulate an equitable approach to regulating them (Bridges, 2018). To comply with the state's Short-Term Rentals Act, enforcement agents, whether as private contractors or municipal employees, should be charged with ensuring that safety and health requirements are being met. The following alternatives represent some strategies for ensuring better enforcement of STR regulations.

Alternative 1: Free permitting and permit display.

Nguyen, Taheri, and Valenta (2016) analyzed STR permitting in Los Angeles and recommend creating a system with free permitting that requires STR permit numbers to be displayed on any advertisement. The authors argued that compliance under such a system will increase because it will be easier to identify operators that are not in compliance with STR policies. STR platforms have resisted complying with these ordinances, causing some municipalities like Portland to take legal action against platforms that do not require users to register with municipalities before using the platform (Njus, 2018). In Portland, Airbnb, for its part, has aided in enforcement by removing ads not displaying permit numbers (Nguyen et al., 2016). Making the permitting process available through an automated online platform and at no cost expedites the process and encourages compliance from those not earning large sums of money through STR rentals (Nguyen et al., 2016). Nguyen et al. (2016) also suggest that municipal workers can easily find STRs not complying with local regulations because the permit number will not be displayed with advertisements. While most of these regulations refer to displaying the permit number in an advertisement, in New Hampshire STRs also have to display their physical permit in a visible window. Municipalities could choose to require the permit number to be posted on advertisements and a copy posted at the physical location. It is important to note that this enforcement mechanism has caused litigation between platforms and municipalities elsewhere, while also adding to a municipality's responsibilities by requiring the creation of an online permitting system that employees will review for compliance.

Alternative 2: Third party compliance monitoring.

Municipalities can outsource enforcement efforts by contracting a third party company to review STR locations and activity. In Newport, city records indicated 198 registered STRs, but Airbnb notified Newport that they had 390 active hosts that accommodated 22,000 guest arrivals staying at an average of two nights per month (Rulli, 2018) In response, Newport hired a private company, Host Compliance, to identify the registered establishments within the municipality. The price of contracting with Host Compliance, LLC depends on the number of STRs within a municipality and the type of monitoring services purchased. In 2017, the City of Newport paid $29,980 for this service as a way of monitoring STR identification and compliance. One benefit of partnering with a third party service provider is that monitoring begins quickly and there is no need for designing and executing a municipal personnel training system. The costs associated with contracting third party compliance monitoring results in reduced municipal control and oversight of STR activity. However, depending on the level of STR activity within a municipality, contracting out for compliance monitoring could be a better option than hiring a municipal officer. In some municipalities, STR activity may be too low to provide a return on investment for contracting out for STR services.

Alternative 3: Municipal oversight and control.

The Newport Planning Board's STRs investigative task force recommended the hiring of an STR officer for municipalities dealing with STR issues. An officer hired for this position collects registration forms and fees, works with state and local tax offices to collect revenues, and identifies illegal guest houses by reviewing hosting platforms (Flynn, 2017). Allocating funding to support a monitoring agency will require considering how the agency will be funded in the municipal budget. For example, in the FY2018 budget, the City of Newport allocated $1,568,921 and expended $1,576,243 in police salaries, as well as $22,479 in direct enforcement, with overtime totaling $75,000 as expended. In addition, the City of Newport expended $456,000 dollars in FY2017 to support personnel in planning and zoning enforcement (City of Newport, 2018). The City of Newport's Planning Board supports increasing the STR registration fee over the current amount of $45 in order to help defray personnel costs and to increase the municipality's monitoring and enforcement capacity. At the current registration fee of $45, registration user fees can generate revenue for the municipality should all STR operators register their STR units. For example, for the 12 months leading up to July in 2018, Newport had 708 active whole home rentals (Flynn, 2018), which generated $31,860 in revenue for whole home rental registration. Within the same time frame, Newport had 462 rooms available for rent, with only 16.16 percent rooms registered. Ensuring that all STR room operators register their STR units would yield $20,790 in revenue based on registration fees for Newport (Flynn, 2018). The Short Term Rentals Investigatory Group recommended that the $45 registration fee for Newport could be increased substantially; allowing for increased revenue for the municipality to further support personnel costs while adding greater capacity to monitor regulatory compliance (Flynn, 2018). The task force recommended hiring a municipal administrator responsible for enforcement of registration requirements and administering fines set at a minimum of $1,000 for listing unregistered STR units online. Any revenue generated would then be redirected to the Town's restricted funds to continue supporting personnel costs to administer STR monitoring compliance. For owners who continue to advertise illegally or rent without registering their STRs, the task force also recommended that fines should increase for owners (Flynn, 2018).

Municipal control may also become burdensome over time, especially as STR numbers increase substantially. Municipalities may not be able to commit the necessary resources and support in the oversight process. Municipalities also do not know the future of the STR market, and committing permanent resources and personnel to enforcement may be a poor investment. Platforms like Airbnb have been fairly good at complying with regulations but have certainly not gone out of their way to help municipalities with enforcement, and these platforms value the privacy of operators. Overall, municipal oversight may be infeasible for smaller municipalities and unwieldy for larger ones, but it provides total control over STR enforcement.

Solutions for Enforcement

- Free Permitting and Permit Display
- Hire a Third Party Compliance Company
- Create Municipal Oversight Entity

Rhode Island Tax Implications

Current STR Tax

The State of Rhode Island currently taxes STR operators by varied amounts depending on the type of STR dwelling, with funds being collected and distributed in different ways. An entire house, cottage, condo, or apartment is taxed at a seven percent sales tax rate and a one percent local hotel tax rate (totaling eight percent). The seven percent state sales tax is allocated to the state's general fund while the one percent rate is distributed to municipalities. Short-term room rentals are taxed an additional five percent, which is the state hotel tax (for a total taxation rate of thirteen percent). The funds from this state tax are distributed to municipalities, the RI Commerce Corporation, regional tourism councils, the Providence/Warwick Convention & Visitors Bureau, and East Providence escrow. According to data from Inside Airbnb (2018) about 70 percent of Airbnb rentals are whole home rentals, while 100 percent of VRBO and HomeAway rentals are whole properties. This makes approximately 30 percent of STRs subject to the state hotel tax. State law precludes municipalities from creating their own taxes on STRs as stated in RIGL § 42-63.1-8.

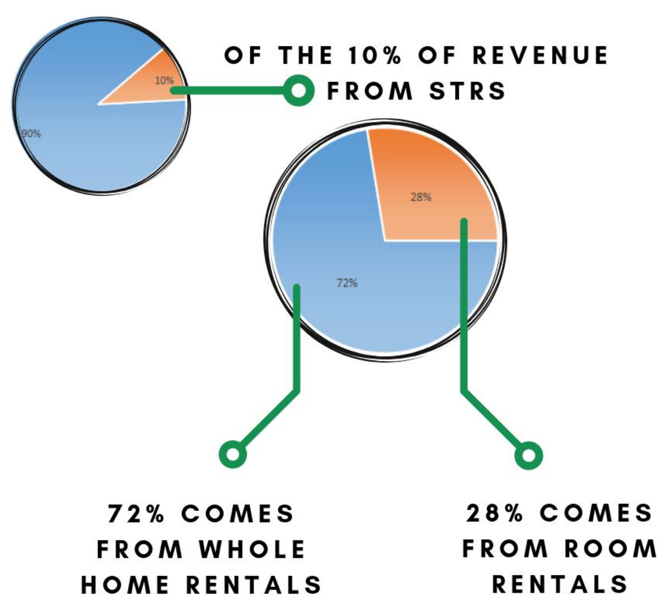
Municipal Tax Revenue from STRs

Tax	Whole Home	Room Rental
Local Hotel Tax	1%	1%
State Hotel Tax	N/A	1.25%*
Totals	1%	2.25%

*Municipalities get 25 percent of the five percent State Hotel Tax

Municipal Income

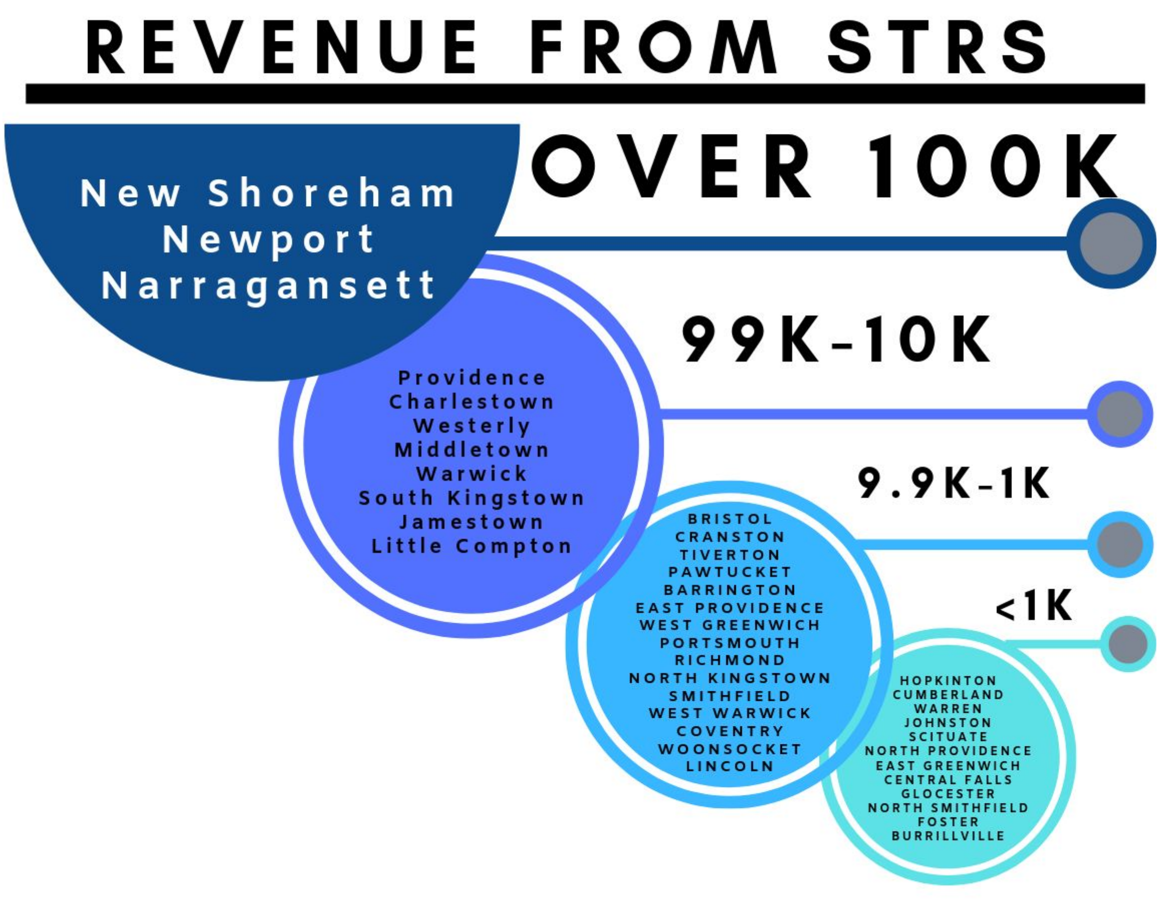
Municipalities receive one-fourth of all revenue from the five percent state hotel tax. The RI Division of Taxation collects the tax and then distributes it to the municipality. The RI Division of Taxation publishes monthly reports on the five percent state hotel tax, and a separate monthly report on the one percent local hotel tax, with the most recent available report created in June 2018 (RI Division of Taxation, 2018). According to the RI Division of Taxation, in FY18 municipalities received a total of $10,138,681 as revenue from state and local hotel taxes. It is very important to note that both the state hotel tax and the local hotel tax is mostly comprised of taxes on hotel rooms, not STRs. Newport, which collected the largest amount of taxes,



collected $2,561,498 from hotels but only generated $195,528 from hosting platforms. The five municipalities generating the most revenue from both taxes combined, only earned between two and eight percent of that total from STRs. An overwhelming 90 percent of all combined municipal revenue from hotel and local taxes comes from hotels. There are exceptions with New Shoreham, Narragansett, Charlestown, Jamestown, and Little Compton each earning between 51 and 74 percent of hotel and local tax revenue from STRs. The cause for this discrepancy might be due to a number of factors, including a lack of major hotels or different types of tourism, but these communities in particular may benefit from an increased focus on STR taxes.

Another aspect of municipal income from STRs is the difference between room rentals and whole home rentals. Municipalities receive a total of 2.25 percent from room rentals and only receive one percent from whole home rentals. This is because the room rentals are subject to the state hotel tax, and the whole home rentals are only subject to the local hotel tax. The majority of rentals in Rhode Island are whole home rentals, around 70 percent. As mentioned before, STRs account for only ten percent of total tax income for municipalities, and of that ten percent, 72 percent of municipal income is from whole home rentals, while 28 percent is from room rentals. This will provide a basis for alternatives one and two, which are described below.

The real issues municipalities face in terms of taxing STRs is in supporting the related enforcement costs, should municipalities choose to regulate STRs. The overwhelming majority of Rhode Island municipalities, 28 of the 39, received less than $10,000 in FY 2018, with 12 municipalities earning less than $1,000. For most communities, the revenue generated from all STR taxes increased from FY17 to FY18, as would be expected from a growing industry. Most municipalities saw growth in the double digit percentage range, while some increased or decreased by hundreds or thousands of percentage points, which is likely due to a community having a small number of STRs and having new STRs emerge or the



few existent STRs go away. Overall, tax revenues from STRs to municipalities have been increasing over time. For those communities with hotels, tax collections have been relatively flat by comparison, except when new hotels are built. Whatever the case, municipalities should carefully consider the potential tax earnings of developing an enforcement plan because at first glance funding it through permitting systems and fines may prove to be an insufficient funding source. We will now list potential alternatives to address the varying municipal needs.

Table 2

*Municipal Revenue from Hotel and Local Taxes**

Municipality	Hotels	% of Total	STRs	% of Total	Totals
Newport	2,365,970	92%	195,528	8%	2,561,498
Providence	2,135,679	96%	87,827	4%	2,223,506
Warwick	1,218,075	98%	30,651	2%	1,248,726
Middletown	1,030,140	96%	43,829	4%	1,073,969
Westerly	639,061	93%	47,403	7%	686,464
New Shoreham	310,333	48%	342,673	52%	653,006
Narragansett	132,421	49%	139,302	51%	271,723
South Kingstown	166,960	85%	29,146	15%	196,106
Smithfield	163,623	99%	2,450	1%	166,073
West Warwick	151,434	99%	2,106	1%	153,540
West Greenwich	120,731	98%	2,741	2%	123,472
North Kingstown	107,510	96%	4,651	4%	112,161
Lincoln	110,801	99%	1,104	1%	111,905
Coventry	105,244	98%	1,994	2%	107,238
Pawtucket	86,540	96%	3,465	4%	90,005
Charlestown	18,327	26%	50,954	74%	69,281
Bristol	56,266	91%	5,286	9%	61,552
Woonsocket	50,935	98%	1,127	2%	52,062
East Providence	44,091	94%	2,950	6%	47,041
Jamestown	7,290	26%	20,445	74%	27,735
Cranston	21,027	85%	3,829	15%	24,856
Little Compton	5,805	29%	14,245	71%	20,050
Portsmouth	10,292	60%	6,810	40%	17,102
Johnston	7,159	97%	251	3%	7,410
Scituate	6,746	96%	249	4%	6,995
Richmond	3,845	59%	2,683	41%	6,528

Tiverton	-	-	3,645	100%	3,645
North Smithfield	3,148	98%	76	2%	3,224
Glocester	2,944	96%	110	4%	3,054
Barrington	-	0%	2,973	100%	2,973
Hopkinton	742	44%	931	56%	1,673
East Greenwich	762	69%	347	31%	1,109
Cumberland	-	-	834	100%	834
Warren	-	-	826	100%	826
Foster	560	88%	74	12%	634
North Providence	-	0%	519	100%	519
Central Falls	-	0%	123	100%	123
Burrillville	-	-	63	100%	63
Exeter	-	-	-	-	-
Totals	9,084,461		1,054,220		10,138,681

*RI Division of Taxation FY 18 TYD data from June 2018

Table 3

*FY 2018 Municipal Income from STR taxes**

Municipality	1.25% Room Rentals	1% Room Rentals	% of Total	1% Whole Home Rentals	% of Total	Totals
New Shoreham	2,527	2,023	1%	338,123	99%	342,673
Newport	53,128	42,503	49%	99,897	51%	195,528
Narragansett	4,691	3,754	6%	130,857	94%	139,302
Providence	47,535	38,028	97%	2,264	3%	87,827
Charlestown	479	383	2%	50,092	98%	50,954
Westerly	1,522	1,217	6%	44,664	94%	47,403
Middletown	10,726	8,581	44%	24,522	56%	43,829
Warwick	16,826	13,461	99%	364	1%	30,651
South Kingstown	3,148	2,518	19%	23,480	81%	29,146
Jamestown	3,919	3,136	35%	13,390	65%	20,445
Little Compton	563	450	7%	13,232	93%	14,245
Portsmouth	1,167	934	31%	4,709	69%	6,810
Bristol	1,137	877	38%	3,272	62%	5,286
North Kingstown	868	694	34%	3,089	66%	4,651
Cranston	1,747	1,399	82%	683	18%	3,829
Tiverton	528	422	26%	2,695	74%	3,645

Pawtucket	1,819	1,455	94%	191	6%	3,465
Barrington	312	250	19%	2,411	81%	2,973
East Providence	1,594	1,275	97%	81	3%	2,950
West Greenwich	560	448	37%	1,733	63%	2,741
Richmond	1,369	1,094	92%	220	8%	2,683
Smithfield	823	658	60%	969	40%	2,450
West Warwick	1,170	936	-	-	-	-
Coventry	993	795	90%	206	10%	1,994
Woonsocket	627	500	-	-	-	-
Lincoln	313	208	47%	583	53%	1,104
Hopkinton	137	110	27%	684	73%	931
Cumberland	89	71	19%	674	81%	834
Warren	122	98	27%	606	73%	826
North Providence	288	231	-	-	-	-
East Greenwich	173	138	90%	36	10%	347
Johnston	95	76	68%	80	32%	251
Scituate	137	112	-	-	-	-
Central Falls	70	53	-	-	-	-
Glocester	61	49	-	-	-	-
North Smithfield	42	34	-	-	-	-
Foster	41	33	-	-	-	-
Burrillville	35	28	-	-	-	-
Exeter	-	-	-	-	-	-
Totals	161,381	129,032		763,807		1,049,773
	Combined Room Total	290,413				

*FY 18 TYD data from June 18

Alternative 1: Petition the state to make tax rates uniform whole home and room rentals.

Municipalities can lobby the state legislature to add a new 1.25 percent local hotel tax on whole home STRs. This would make the tax rate between room rentals and whole home rentals more equitable, or at least allow municipalities to generate more revenue since 70 percent of listings are whole home rentals, and 72 percent of tax revenues are generated by whole home rentals. Of the $1,049,773 generated by STRs in FY18, $763,807 came from whole home rentals. Creating an additional 1.25 percent local hotel tax would have generated an additional $954,758.75 in municipal revenue in FY18 and over $1 million in future years (assuming that the tax increase does not deter STR renting behavior). From a political feasibility standpoint, this option can be framed as leveling the playing field for all operators, and the legislature may be more inclined to approve this small increase. As with all tax increases there may be pushback from operators or platforms, but this increase keeps Rhode Island on the low end of STR taxes when compared with regional states. Connecticut, for example, imposes a 15 percent room occupancy tax and allows an additional one percent local tax, totaling 16 percent for STRs (State of Connecticut Department of Revenue Services, 2017). Changing the current STR taxing structures to bring whole home rentals to the same 2.25 percent received from room rentals may help municipalities cover the cost of their enforcement efforts, especially considering that the overwhelming majority of STRs are whole home rentals.

Alternative 2: Petition the state to extend the state hotel tax to all STRs.

Similar to Alternative 1, this option requires municipalities to petition the state to change state law to include all STRs under the umbrella of the state hotel tax. This option not only provides municipalities with a larger tax base and all the benefits listed in alternative 1, but will also benefit the other state recipients of the five percent state hotel tax. This is similar to Alternative 1, but may be more or less politically viable depending on the disposition of the legislature. The additional benefit Alternative 2 provides is that taxes on all STRs will be exactly the same; all STRs will have a seven percent sales tax, a five percent state hotel tax, and a one percent local hotel tax for a total tax rate of thirteen percent. This alternative will simplify tax considerations across the board for operators, consumers, and platforms. This alternative also has the benefit of not necessarily being a new tax, but an extension of an existing tax to create uniformity and bring Rhode Island in line with other regional states. In Connecticut and New Hampshire STR taxes apply to all STRs, regardless of whether they are a room or whole home rental. The possible costs to this alternative are that it is a larger tax increase and it affects a large pool of operators. Care would have to be taken to promote the tax increase as leveling the playing field and simplifying the tax structure. Additionally, the legislature would need to change the current definition of hotels to apply the state hotel tax on whole home rentals, which are currently not considered hotels.

Alternative 3: Municipality control of taxes.

Giving municipalities control over choosing STR tax rates would allow for independent assessment and control of STR activity within a municipality. Currently, all 39 municipalities receive revenue from the state hotel tax at fixed percentages depending on STR rental type. As already described above, all 39 municipalities in Rhode Island receive 2.25 percent for room rentals and one percent for whole home rentals from the five percent state hotel tax. Adopting a model as such would require municipalities to ask the state to allow municipalities to create and collect their own local hotel tax instead of receiving monthly payments from the Rhode Island Department of Revenue. The benefit of allowing municipalities to determine their own STR tax rates allows municipalities to control STR activity by tailoring STR taxes to either attract STR customers where STR type activity is low, or to dissuade STRs by administering higher taxes. This model allows municipalities to limit nuisance issues by increasing taxes where STR prevalence is high. At the current taxing structure model, revenue received from municipalities significantly varies in Rhode Island due to varying STR activity or hotel prevalence as a potential alternative to STR utilization. For example, in Woonsocket, 98 percent of municipal revenue received from hotel and local taxes is generated from hotels whereas two percent of the revenue is generated from STRs in FY18. For a city like Woonsocket, STR prevalence could be increased by allowing the municipality to have control of STR taxes. Adopting a model similar to California, which does not have a state-level lodging tax, would allow Rhode Island to implement a transient occupancy tax

(TOT) which is administered as a locally-imposed tax paid by guests who stay at hotels or similar establishments in a municipality that levies the tax. This model allows each municipality in California to have its own unique TOT and, depending on the municipality, the tax rate can reach up to 16 percent (Sheyner, 2018). Florida has a six percent state sales tax, which applies to rental charges or room rates for rental periods six months or less, often called "transient rental accommodations" or "transient rentals." Individual Florida counties may impose a local option tax. Local option transient rental taxes include the tourist development tax, convention development tax, tourist impact tax, and municipal resort tax. The local tax imposed is in addition to the six percent state sales tax and any applicable discretionary sales surtax (Florida Department of Revenue, 2018). The local tax ranges from zero percent to six percent. Counties either collect this local tax independently or it is collected by the state department. Municipal control of STR taxes provide the opportunity for municipalities to tax based on the impact STRs are having in their community.

Alternative 4: Do nothing.

Municipalities may decide not to attempt to change the tax rates or expand the base by including whole homes in the hotel tax. There may be several reasons for doing nothing, including: political headwinds that make legislative changes unlikely, limited new revenue generation from alterations in the tax structure and rate, and lack of municipal staff time and energy to exert on advocacy efforts with the General Assembly.In each of these cases municipalities may want to rely on a standard permitting system. This would maintain the status quo, which does not necessarily improve accountability, but would save time and energy while allowing the continued receipt of taxes at the current rates.

Solutions for Tax Implications

- Additional 1.25% Tax on Whole Home STRs
- Extend State Hotel Tax to All STRs
- Push for Municipal Control of STR Tax Rates
- Do Nothing, Utilize Existing Framework

Recommendations and Conclusion

We have analyzed the various policy options that are available to cities and towns in Rhode Island for regulating STRs. We found that municipalities can combine various alternatives discussed in this analysis to address unique STR issues that cities and towns may face. Municipalities can respond to nuisance and long-term housing concerns by requiring rental properties to be the operator's primary residence. This alternative limits the amount of the property that can be used as an STR since the property must be used as a primary residence for a specific number of days in the year. Since properties will be used as an STR for a limited time, there are fewer opportunities to generate nuisances as a result of renting out the property. This alternative also addresses long-term housing concerns as it prohibits commercial operators (those who rent out three or more properties) from using STR properties like hotels. Units can then be rented out as long-term rentals, adding to the available housing stock. The downside to this approach is the fierce criticism, and potential legal action, that comes from commercial operators and owners who have purchased property for the sole purpose of generating income. Restricting the amount of rented days a property can be used as an STR is another alternative that addresses both nuisance and housing concerns. Limiting the number of days a property can be used as an STR can limit the number of days nuisance behavior occurs. A municipality can choose to tailor this quantitative limitation on the basis of the severity of its housing shortage and nuisance issues.

Given the diversity of Rhode Island's 39 municipalities, the alternatives we described in this analysis do not lend themselves well to a one-size-fits-all recommendation. Depending on community composition and characteristics, municipalities can combine various alternatives discussed in this report to address unique STR issues experienced. For example, we would not recommend hiring a municipal enforcement agent for a city like Johnston with only three percent of the state hotel tax share generated from STRs totaling $7,410 annually. For municipalities like Newport, however, a mix of alternatives such as high fines and having municipal oversight and control would allow the municipality to address neighborhood nuisance concerns. Our analysis demonstrates that the front-end costs of contracting out to a private entity can be offset by the revenue received from taxes, permitting fees, and noncompliance fines. The revenue from taxes, fees, and fines could be used to support STR officers hired by municipalities to continuously monitor and enforce STR requirements. For municipalities like Newport, this approach may be feasible due to the $2,561,498 in annual revenue it receives from the state hotel tax that can be used to support start-up costs for STR program monitoring and personnel hiring. Municipalities receiving less than $10,000 annually from STRs may consider a more traditional approach where free permitting, tracking, and fining offenders is emphasized. This will at least allow municipalities to stay abreast of their changing STR environment so that changes can be made as needed.

Overall, municipalities must contend with a variety of challenges in managing their approach to the STR marketplace. Most notably, the procedural burdens on tax rate adjustments and the risk of litigation from STR platforms can limit the options that are available. The viability of the various policy alternatives discussed in this report will depend on the needs and demographic characteristics of the municipality.

Solutions to Nusiance

- Create and Post Rules
- Fine Operators or Renters for Violations
- Allow Only Owner-Occupied STRs
- Limit Number of Nights an STR Can Operate
- Limit the Number of Visitors per STR

Solutions to Hotelization/LMIH

- Create Tiered Fee Structure
- Limit Types of STR Offerings
- Allow Only Owner-Occupied STRs
- Limit Number of Nights an STR Can Operate
- Create Proximity Restrictions

Quantitative Restrictions on STRs can Solve Nuisance and Housing Issues

Solutions for Enforcement

- Free Permitting and Permit Display
- Hire Third Party Compliance Company
- Create Municipal Oversight Entity

Solutions for Tax Implications

- Additional 1.25% Tax on Whole Home STRs
- Extend State Hotel Tax to All STRs
- Push for Municipal Control of STR Tax Rates
- Do Nothing, Utilize Existing Framework

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