

City of Knoxville

Short-Term Rentals

City Council Workshop 11/10/22



Short-Term Rental History



1/2018 – The City’s ordinance went into effect.

1/2019 – State Law went into effect and defined some aspects of what and how local governments are allowed to regulate short-term rentals.

A historic synopsis of the City’s process can be found on the City’s website.

Short-Term Rentals Currently



This workshop will focus primarily on how short-term rentals operate at present in the City.

We will cover:

- Short-Term Rental History
- Overview of Knoxville's Ordinance
- Synopsis of Tennessee's Short-Term Rental Unit Act
- Knoxville Process Updates
- Knoxville Stats and Details
- Tennessee Legislative Landscape
- Questions



City of Knoxville **Short-Term Rental Ordinance Overview**

Short-Term Rental Definition



The City of Knoxville's Ordinance defines a short-term rental as properties or a portion of a property rented for less than 30 days at a time.

STR = Short Term Rental

STR Platforms = promotional platforms like Airbnb, HomeAway, etc.

Short-Term Rental Application & Permit



The City requires operators of short-term rentals to apply for and obtain a permit through the Business Tax Office.

The application is on the City's website and a printed copy has been provided for this workshop.

The City has 2 types of permits based on how the property is zoned.

2 Types of Short-Term Rentals



Type 1 Operating Permit, Owner Occupied in Residential District
(Fee \$70; Annual Renewal \$50)

- Residential District is property zoned residential.
- One permit per person (natural person only) in the City.
- Owner not required to be present while unit is rented.
- Owner occupied means the property where the short-term rental unit is located must be the owner's principal residence.

2 Types of Short-Term Rentals



Type 2 Operating Permit, Non-Owner Occupied in Non-Residential District (Fee \$120; Annual Renewal \$50)

- Non-Residential District is property zoned something other than residential, but that allows residential uses.
- Owner is not required to have property as their principal residence. However, the property and entity must be in good standing. (i.e. current on taxes, entity validity with TN Secretary of State, etc.)

2 Types of Short-Term Rentals



Type 2 Operating Permit (continued)

- May be issued to an owner or lessee
- Available to a person or an entity (i.e. a business)
- A person or entity may only hold 2 permits in the City
- Requires name and contact info. for operator AND owner
- If owner is not operator, requires owner permission

Ownership & Residency

Ownership is established by the recorded property deed.
(Required for both Type 1 and Type 2)



Residency *(Required for Type 1)* is established by at least 2 of the following listing the address of the STR on the document:

- Owner's motor vehicle registration
- Owner's valid driver's license or TN identification card
- Owner's children's school registration
- Owner's voter registration card
- Owner's W-2 mailing

Additional Application Highlights



- Requires Life Safety Compliance
- Requires City and County Business License
- Requires notification of neighbors and map indicating those notified



State of Tennessee
**Short-Term Rental Unit Act
and Other Relevant Statutes**

Short-Term Rental Unit Act

Codified as Tennessee Code Annotated, §§ 13-7-601 – 13-7-606 (eff. May 17, 2018).



- Preemption – The State act preempts the City Ordinance whenever there are conflicts between the two (i.e. The state act is controlling if there is a conflict.)
 - Tennessee Code Annotated, § 13-7-606.
- Authorizes permits to be issued at the local level
 - Tennessee Code Annotated, § 13-7-604(b).
- Establishes revocation requirements local governments can operate within (will address later in presentation.)
 - Tennessee Code Annotated, § 13-7-604(b).

Short-Term Rental Unit Act

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Legacy Provisions

New local regulations do not apply to unit if:

- Unit was being used as short-term rental unit prior to ordinance AND
- One of the following is true:
 - If a permit or approval of application was previously required, a permit was issued or application was approved; OR
 - If no permit was previously required, provider remitted sales and use taxes due for 6 of the 12 months immediately preceding Knoxville's short-term rental ordinance.

May continue to operate until the property is sold, transferred, ceases being used as a short-term rental unit for a period of 30 continuous months, or has been in violation of generally applicable local laws 3 or more separate times as provided by Tennessee Code Annotated § 13-7-604 if adopted by ordinance.

Legacy for Knoxville



01/2018
Short-Term
Rental
Ordinance
effective date

Effective Date
of any New
or Amended
Ordinance or
Regulation

(1) Legacy status only if paying applicable taxes for 6 of previous 12 months;
(2) may require permit; and
(3) revocation may apply for 3 violations

Current Short-Term Rental Ordinance governs all applicants who start operating unit during this timeframe and are given legacy status if obtain a permit

New/amended ordinance would govern only new permit applicants/new units

City of Knoxville STRs Prior to Ordinance



- At the time the City of Knoxville's STR ordinance passed, there were no STR operations in Knoxville that met the state requirements of operating and paying appropriate taxes.
- Therefore, there are no legacy (grandfathered) STR properties in the City of Knoxville. All are required to follow local ordinance requirements.



City of Knoxville **Short-Term Rental Process Updates**

Taxes



- Occupancy Tax – collected and paid by promotional platforms
- Sales Tax – collected and paid by promotional platforms

NOTES:

- Occupancy and Sales Tax are collected on all STR Platforms **regardless of permit status.**
- **If individually rent outside of a STR Platform,** operator is responsible for collecting and paying occupancy, and sales tax.

Non-Compliant Properties



- The City has a contract with Host Compliance for monitoring.
- Host Compliance executes software that compares City of Knoxville permit holders with those properties being advertised on various STR Platforms such as Airbnb, HomeAway, etc. in an effort to identify non-compliant properties.
- Not all properties promoted on STR Platforms list the actual address. Therefore, it is not a perfect system.

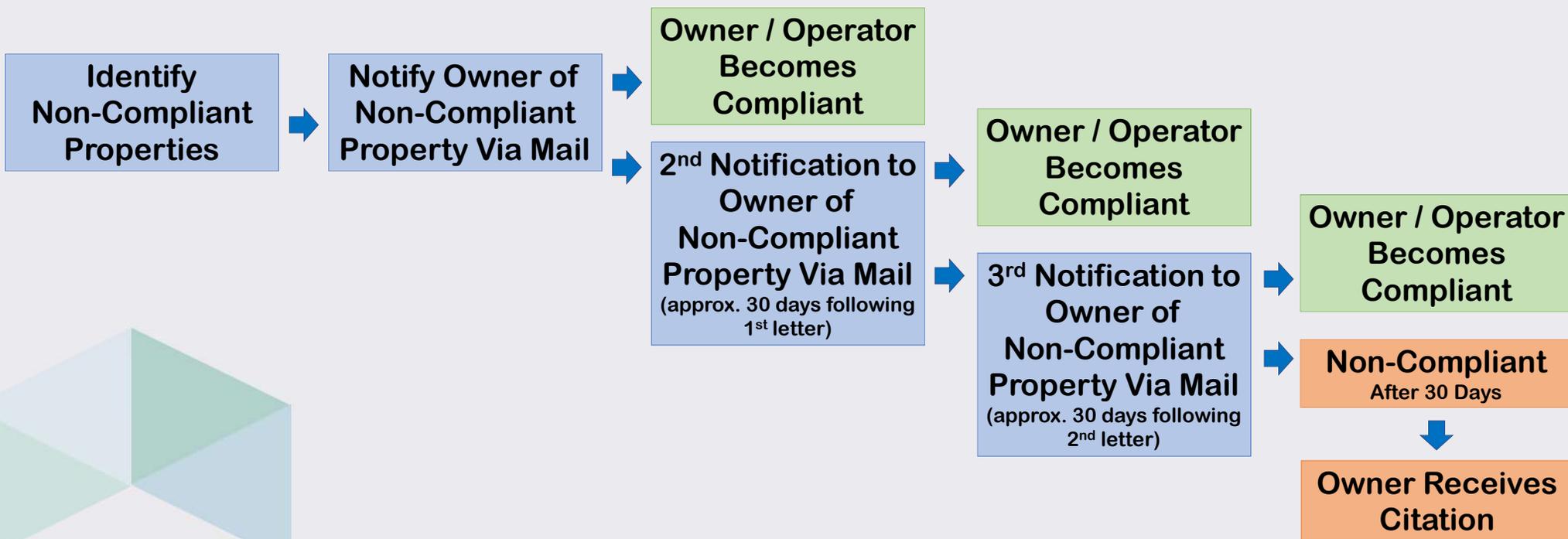
Non-Compliant Properties



- Letters are mailed notifying non-compliant property owners.
- Often cast a wide net of several addresses in the general vicinity for properties without an address listed, for the first letter.
- Generally, either the STR operator or neighbors who received the letter will contact the City. Typically the address is narrowed to one or two properties by the second letter and sometimes is fully resolved before the second letter would go out.

Case Study #1

Non-Compliant Properties



Hotline Call / Complaint Process



- Through the contract with Host Compliance, the City has a reporting hotline available 24/7.
- Allows for in the moment reporting.
- Number listed on the website and is 865-337-8275.
- Host Compliance works through a series of questions with the caller to establish the situation.

Hotline Call / Complaint Process

(continued)



- A report is provided to the City's Tax Office.
- The City follows up with operator about the situation via email, and follows that with a written mailed notification of the complaint.

Depending on the nature of the complaint, City Law, City Tax, or other City departments may follow up.

- Operator has 30 days to respond, present evidence, and demonstrate compliance going forward.

Hotline Call / Complaint Process

(continued)



- After the Operator responds and presents evidence, City researches issues involved (examples: whether content of Airbnb ad complies with ordinance, whether Operator currently can establish “residency,” etc.)
- City representatives determine whether a violation has occurred and whether a citation should be issued.
- Representatives include those from City Business License and Tax, Law, Policy, and Zoning (and other departments as needed).

Case Study #2

Hotline Call / Complaint



Example:

- Report received by the City indicates the STR transient occupants / operator have not maintained trash in appropriate containers for collection.
- City Law follows up with operator about the situation via email, and follows that with a written mailed notification of the complaint.
- Within 30 Days, operator showed evidence of new, stronger communication, and acknowledgement by STR transient occupants of trash requirements.

State of Tennessee Revoking Permits



The Short-Term Rental Unit Act allows cities to adopt an ordinance to revoke permits **only if**:

“as a direct result of the operation of the short-term rental unit,”

- there have been three or more separate violations of local laws (*City ordinances, i.e. noise, parking, etc.*)
- and the operator has no appeal rights remaining

The burden is on the city to prove those violations.

See Tennessee Code Annotated § 13-7-604.

Citation • Violation • Revocation • Appeal

Definitions / Uses:



- **Citation** – Local Knoxville term
 - Can be issued when a local ordinance has not been followed, has the possibility of fees
- **Violation** – State of Tennessee term
 - Can be issued **if** the City can prove that the local ordinance that was not followed was specifically a direct result of operation of a Short-Term Rental unit
- **Revocation** – State of Tennessee and Local Knoxville term
 - Can be issued if the operator has received three violations (as defined above) for the same Short-Term Rental unit
- **Appeal** – State of Tennessee and Local Knoxville term
 - If a revocation is issued, the operator can appeal and the process is outlined in City²⁷ code

City of Knoxville Resolution Process



- Should a situation warrant further consideration for citation, violation, or revocation, City Law Department convenes a group to review the situation and determine next steps.
- This group could include the following departments:

Tax

Policy

Codes

Zoning

Solid Waste

Fire

Engineering

KPD

Case Study #3

Hotline Call / Complaint



Example:

- Report received by the City indicates a property is operating as an STR with a Type 1 permit but the person reporting says it is not the principal residence of the owner.
- The City follows up with operator about the situation via email, and follows that with a written mailed notification of the complaint.

Case Study #3 *(continued)*

Hotline Call / Complaint



- Within 30 Days, operator provides evidence of residency.

2 of the following must show the STR address:

- Owner's motor vehicle registration
- Owner's valid driver's license or TN identification card
- Owner's children's school registration
- Owner's voter registration card
- Owner's W-2 mailing

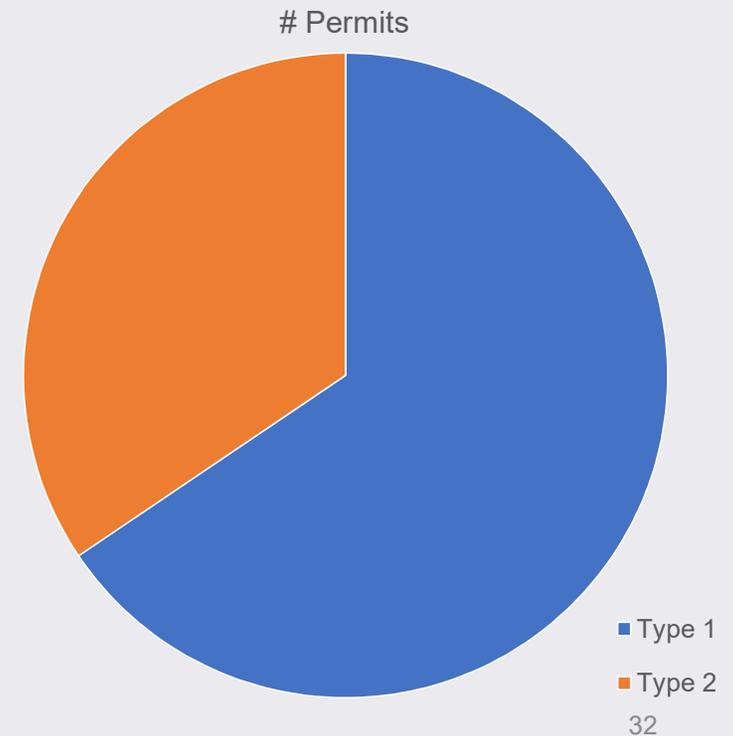


City of Knoxville **Short-Term Rental Stats and Details**

City of Knoxville # Permits



- As of 10/25/22
 - 293 Type 1 Operating Permits
 - 154 Type 2 Operating Permits
 - 447 Total Operating Permits



City of Knoxville Occupancy Tax



Occupancy Tax from Short-Term Rentals

2018	\$ 59,514.88
2019	\$157,333.75
2020	\$ 91,262.94
2021	\$275,467.14
2022 (to date)	\$313,897.70
<u>TOTAL to Date</u>	<u>\$897,476.41</u>

City of Knoxville Hotline Calls and Violations



- Hotline Calls:

- 2022 – 2 Hotline Calls (to date)
- 2021 – 16 Hotline Calls
- 2020 – 18 Hotline Calls

(Sample Hotline Call Topics from 2021 – 10 were for items NOT pertaining to STRs. They included: 1-down tree on own property; 2-when is my trash picked up; 1-when is my recycling picked up; 1-wants second recycling cart; 1-random dog hanging around; 2-looking for long-term rentals; 1-having issues w/long-term rental landlord; 1-wants to rent pavilion at Victor Ashe Park)

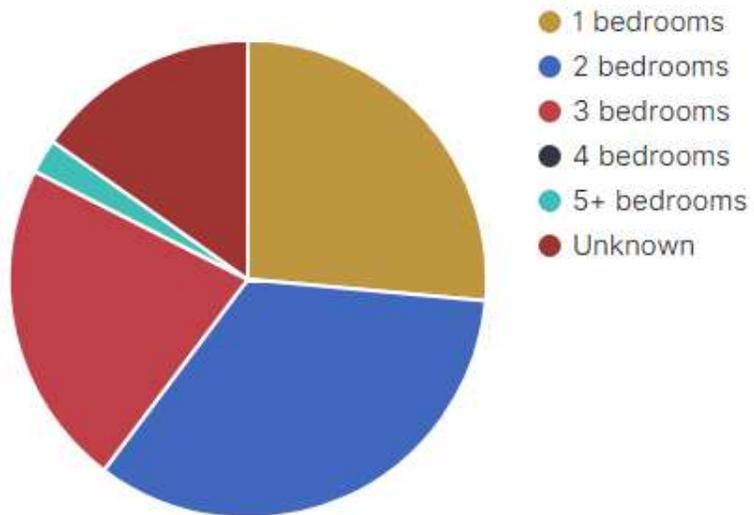
- Violations:

- All complaints have been resolved to comply with code and closed.

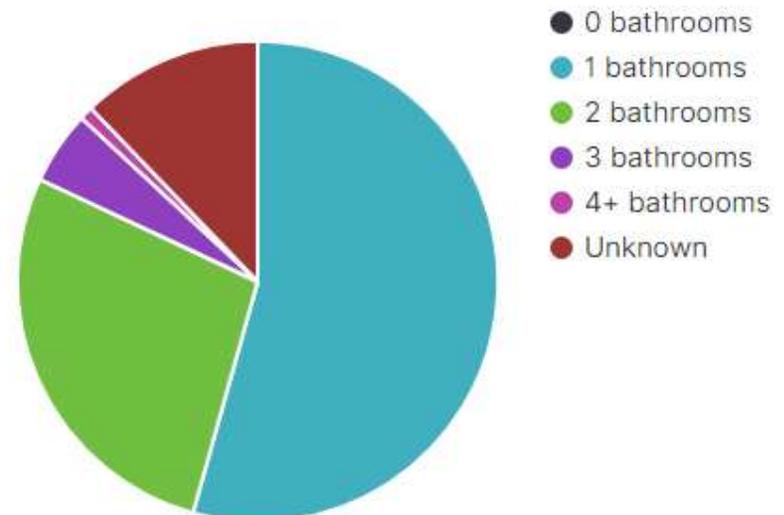


Beds & Baths

Bedrooms ^③



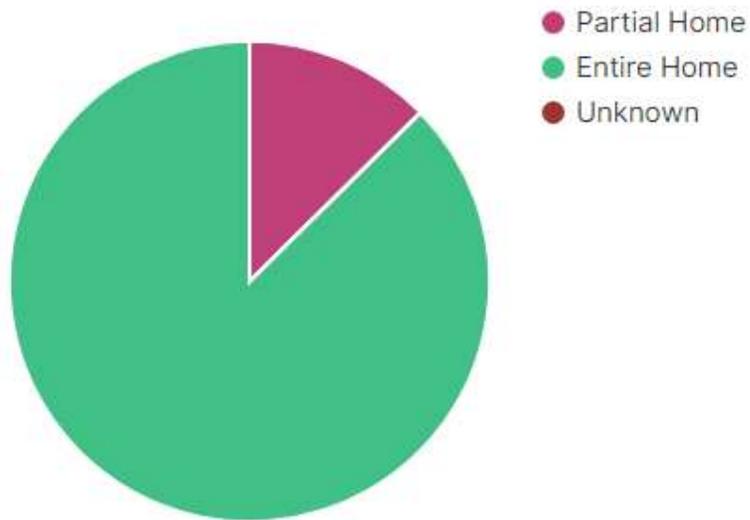
Bathrooms ^③



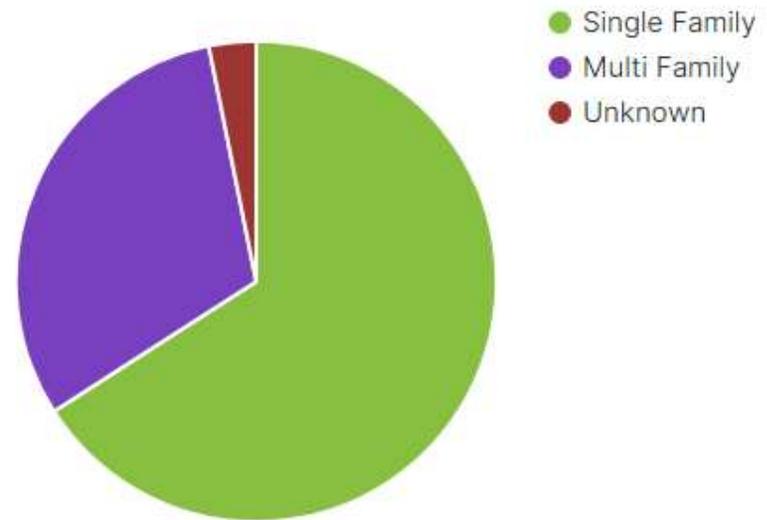
Room & Property Type



Room Type ^①



Property type ^①



Comparison with Other TN Cities



Category	Knoxville	Chattanooga	Nashville
# STR Permits	447	440	6,500
Monitoring Software	Host Compliance	Host Compliance – setting up now, nothing prior	Host Compliance
Restrictions on # of Permits	Type 1 Owner Occupied Permit – 1 per individual Type 2 Permit Non-Owner Occupied – 2 per entity	Owner Occupied Permit – 1 per individual Non-Owner Occupied Permit – multiple allowed per entity	Owner Occupied Permit – 1 per individual Non-Owner Occupied Permit – multiple allowed per entity or individual



State of Tennessee Legislative Landscape



Questions?