



VACATION HOME RENTALS

Emerging Market Analysis

St. Louis County, Minnesota



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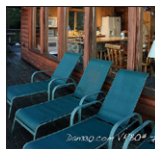
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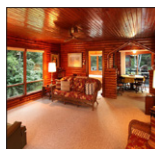
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SUMMARY

The following "Vacation Home Rentals, Emerging Market Analysis" report is a high level analysis of vacation home rentals in St. Louis County and the challenges the county faces with this growing market segment. This report should only be used as a starting reference point for further in-depth discussion to determine the future course of action.

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SUMMARY

- Vacation home rentals have been and continue to be an important lodging alternative for visiting tourists. Lake property outside of cities are most popular location for vacation home rentals.
- **Market Segment:** Vacation home rentals provide lodging accommodations to a different market and offer different experiences.
- **County Stats:** Online advertisement has increased from 130 in 2012 to approximately 270 in 2015. This number is likely larger due to vacation home advertising by word of mouth and other non-web-based venues.
- **Global Trend:** This increase is a worldwide trend made possible by the internet and the relatively cheap entrance into the market.
- **Expanding Markets:** Traditional vacation home rental have focused on shoreland areas while the emerging market is expanding into urban areas.
- **Benefits and Drawbacks:** Vacation home rentals provide benefits and drawbacks to a wide variety of people.
- **Challenges:** Major concerns includes impacts on neighborhood livability such as noise and behavior; impacts on health and safety such as fire protection; impacts on environment such as lake quality; and impact on businesses for a level playing field particularly in area of taxes and regulations.
- **Taxes:** Inconsistent collection of state and local taxes. Property tax classification can be challenging.
- **Counties and Cities:** Counties and cities across the country have begun addressing neighborhood livability impacts, health and safety challenges, business concerns, and environmental impacts. Local approaches vary widely.
- **Land Use:** Land use and environmental conflicts could increase without a comprehensive method to address these issues.
- **Regulation:** St. Louis County has important roles impacting the vacation home rental market in property classification and assessment, land use administration, and on-site sewage treatment compliance.



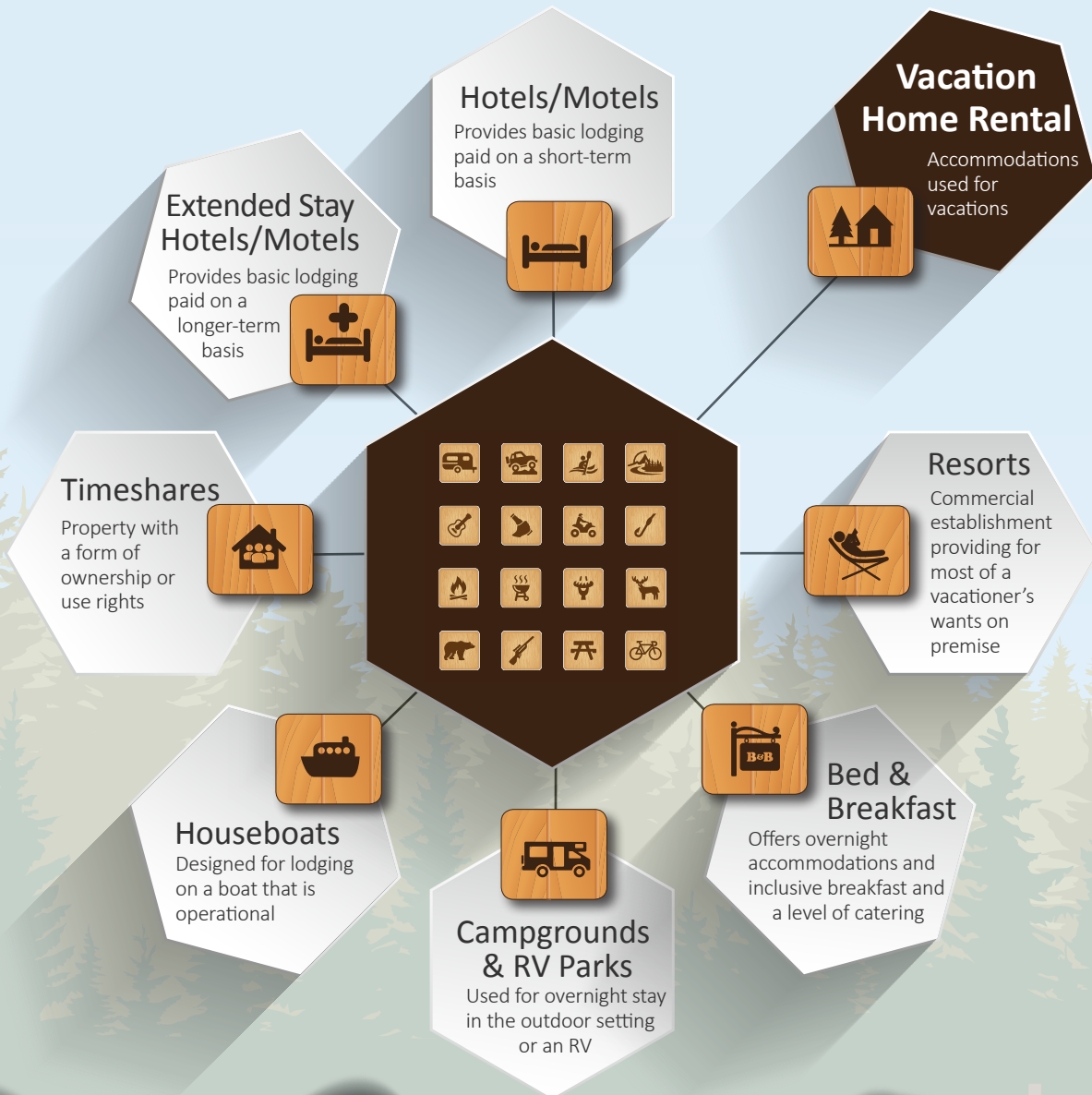
RECOMMENDATION

- **Past Actions:** In 2012, St. Louis County Board reviewed the vacation home rental market and decided to take no action on land use regulations.
- **Future Optional Actions:**
 1. No Change
 2. Coordinate with Regulatory Agencies
 3. Refer to Planning Commission
- **Potential Board Vision:** Consider a board vision of: "Encourage and facilitate standards in the lodging industry for the health and safety of citizens and visitors, while recognizing the variety of lodging opportunities in St. Louis County. Seek to promote an equitable and competitive business environment for the lodging industry and be sensitive to potential negative effects on neighborhoods and communities."

OVERVIEW

MARKET CHOICES

Vacation home rentals are establishments where a property owner rents to the public for periods of typically less than one month. These homes are addressing a market segment or niche that is different than other forms of consumer vacation choices. The following are market choices for vacation travelers when determining a vacation option:



**“DIFFERENT MARKETS”, “DIFFERENT EXPERIENCES”,
ADDRESSING COMMON LODGING NEEDS**

TRADITIONAL & EMERGING MARKETS

VACATION RENTALS

TRADITIONAL VACATION HOME RENTALS

Traditional vacation home rentals are typically single-family homes or units (condos) where a property owner rents a furnished property to the public. Typically, the property is rented for periods of less than one month on a nightly or weekly basis, but rented out more than two weeks throughout the year. Services provided to the renters are limited, but often include bed linens, towels and kitchen supplies and recreational equipment, and at times, boat rentals.

Hosting: Typically, owner is not on-site.

VRBO.COM

SINGLE FAMILY HOME



IRS Taxing: Income that a person receives for the rental of a vacation home must generally be reported on their federal income tax return. If a person uses a vacation home as a residence and rents it for fewer than 15 days per year, the IRS states that a person does not have to report any of the rental income.

Source: IRS Publication 527, Residential Rental Property (Including Rental of Vacation Homes). www.irs.gov/publications/p527/index.html

EMERGING VACATION RENTALS

Emerging vacation home rentals include various types of vacation rentals of single-family homes, townhomes, apartments, condos, private bedrooms, shared bedrooms, couches, tents, camper trailers, tree-houses and any unique place where a property owner rents a furnished property to the public for periods of less than a month, typically on a nightly or weekly basis.

Hosting: Owner or host can be both on or off-site.

AIRBNB.COM

BEDROOM



HOUSE



BOATHOUSE

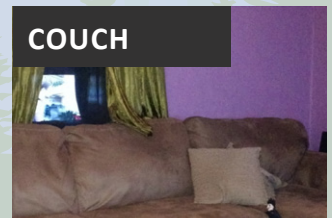


TENT

TREE-HOUSE

ST. LOUIS COUNTY
COUNTY
MINNESOTA

COUCH



HOSTING

MANAGEMENT OF VACATION HOMES

Vacation home rental properties require some level of oversight to protect the interest of the property owners including handling complaints, maintaining and cleaning the property, providing access, managing daily rental needs and inspecting property for damage. The owners may manage the property themselves, hire third party managers or use a professional management company to oversee operations.

TRADITIONAL VACATION HOME RENTALS

VRBO.COM

OWNER MANAGED **OFF-SITE HOSTING**

Owner is not on-site but manages the property remotely or from a close distance.

**MANAGEMENT
COMPANY/BUSINESS** **OFF-SITE HOSTING**

A management firm experienced in the promotion, rental and operation of a vacation home rental can manage a privately owned home or other property as a vacation home rental with experienced staff.

Lake-Rural Model

Currently, on or near shoreland and recreational areas and are primarily more competitive with resorts.

EMERGING VACATION RENTALS

AIRBNB.COM

OWNER MANAGED **ON-SITE HOSTING**



Owner is on-site to oversee all operations.

OWNER MANAGED **OFF-SITE HOSTING**

An owner is not on-site but manages the property remotely or from a close distance.

**MANAGEMENT
COMPANY/BUSINESS** **OFF-SITE HOSTING**

A management firm experienced in the promotion, rental and operation of a vacation home rental can manage a privately owned home or other property as a vacation home rental with experienced staff.

Urban Model

Currently, a stronger presence in urban areas and are more competitive with hotels and B&B's.

DEFINITIONS

STATE STATUTES FOR LODGING ESTABLISHMENTS

Minnesota State Statute provides the basis for regulation of establishments at the State and County level. The following definitions will place terms used in this report in context. These are **not** property tax definitions.

CHAPTER 157. FOOD, BEVERAGE, AND LODGING ESTABLISHMENTS

State Statute 157.15 DEFINITIONS.

Subd. 4. Boarding establishment.

"Boarding establishment" means a food and beverage service establishment where food or beverages, or both, are furnished to five or more regular boarders, whether with or without sleeping accommodations, for periods of one week or more.

Subd. 5. Food and beverage service establishment.

"Food and beverage service establishment" means a building, structure, enclosure, or any part of a building, structure, or enclosure used as, maintained as, advertised as, or held out to be an operation that prepares, serves, or otherwise provides food or beverages, or both, for human consumption.

Subd. 7. Hotel or motel.

"Hotel or motel" means a building, structure, enclosure, or any part thereof used as, maintained as, advertised as, or held out to be a place where sleeping accommodations are furnished to the public and furnishing accommodations for periods of less than one week.

Subd. 8. Lodging establishment.

"Lodging establishment" means: (1) a building, structure, enclosure, or any part thereof used as, maintained as, advertised as, or held out to be a place where sleeping accommodations are furnished to the public as regular roomers, for periods of one week or more, and having five or more beds to let to the public; or (2) a building, structure, or enclosure or any part thereof located within ten miles distance from a hospital or medical center and maintained as, advertised as, or held out to be a place where sleeping accommodations are furnished exclusively to patients, their families, and caregivers while the patient is receiving or waiting to receive health care treatments or procedures for periods of one week or more, and where no supportive services, as defined under section 157.17, subdivision 1, paragraph (a), or health supervision services, as defined under section 157.17, subdivision 1, paragraph (b), or home care services, as defined under section 144A.471, subdivisions 6 and 7, are provided.

Subd. 11. Resort.

"Resort" means a building, structure, enclosure, or any part thereof located on, or on property neighboring, any lake, stream, skiing or hunting area, or any recreational area for purposes of providing convenient access thereto, kept, used, maintained, or

advertised as, or held out to the public to be a place where sleeping accommodations are furnished to the public, and primarily to those seeking recreation for periods of one day, one week, or longer, and having for rent five or more cottages, rooms, or enclosures.

157.16 LICENSES REQUIRED; FEES.

Subdivision 1. License required annually.

A license is required annually for every person, firm, or corporation engaged in the business of conducting a food and beverage service establishment, youth camp, hotel, motel, lodging establishment, public pool, or resort. Any person wishing to operate a place of business licensed in this section shall first make application, pay the required fee specified in this section, and receive approval for operation, including plan review approval. Special event food stands are not required to submit plans. Nonprofit organizations operating a special event food stand with multiple locations at an annual one-day event shall be issued only one license. Application shall be made on forms provided by the commissioner and shall require the applicant to state the full name and address of the owner of the building, structure, or enclosure, the lessee and manager of the food and beverage service establishment, hotel, motel, lodging establishment, public pool, or resort; the name under which the business is to be conducted; and any other information as may be required by the commissioner to complete the application for license.

CHAPTER 327. HOTELS, MOTELS, RESORTS, AND MANUFACTURED HOMES

327.14 DEFINITIONS.

Subd. 8. Recreational camping area.

"Recreational camping area" means any area, whether privately or publicly owned, used on a daily, nightly, weekly, or longer basis for the accommodation of five or more tents or recreational camping vehicles free of charge or for compensation. "Recreational camping area" excludes:

(1) children's camps; (2) industrial camps; (3) migrant labor camps, as defined in Minnesota Statutes and state commissioner of health rules; (4) United States Forest Service camps; (5) state forest service camps; (6) state wildlife management areas or state-owned public access areas which are restricted in use to picnicking and boat landing; and (7) temporary holding areas for self-contained recreational camping vehicles created by and adjacent to motor sports facilities, if the chief law enforcement officer of an affected jurisdiction determines that it is in the interest of public safety to provide a temporary holding area.

327.70 DEFINITIONS.

Subd. 2. Guest.

"Guest" means a person who is registered at a hotel and to whom a bedroom is assigned. The term "guest" includes members of the guest's family who accompany the guest.

Subd. 3. Hotel.

"Hotel" means a hotel, motel, resort, boarding house, bed and breakfast, furnished apartment house or other building, which is kept, used or advertised as, or held out to the public to be, a place where sleeping or housekeeping accommodations are supplied for pay to guests for transient occupancy.

Subd. 4. Innkeeper.

"Innkeeper" means an owner or operator of a hotel.

Subd. 5. Transient occupancy.

"Transient occupancy" means occupancy when it is the intention of the parties that the occupancy will be temporary. There is a rebuttable presumption that, if the unit occupied is the sole residence of the guest, the occupancy is not transient. There is a rebuttable presumption that, if the unit occupied is not the sole residence of the guest, the occupancy is transient.

CHAPTER 4625. LODGING ESTABLISHMENTS

4625.0200 SCOPE.

Parts 4625.0100 to 4625.2300 shall be applicable to all lodging establishments, such as hotels, motels, lodging houses, and resorts as defined in Minnesota Statutes, chapter 157.

Note:

Under State Statute for lodging, most VHR appear more closely defined as a hotel type accommodation.

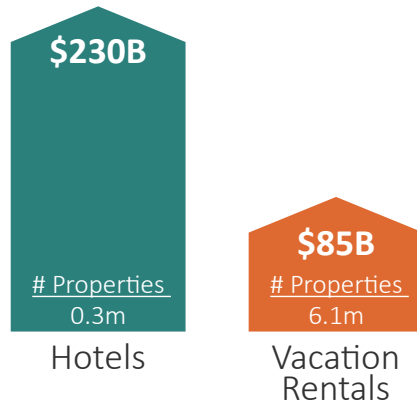
MARKET STATISTICS

VACATION HOME RENTALS

MARKET SIZE VACATION RENTAL

\$85_B

The US + EU vacation rental market is an \$85 billion market compared to the \$230 billion hotel industry market.

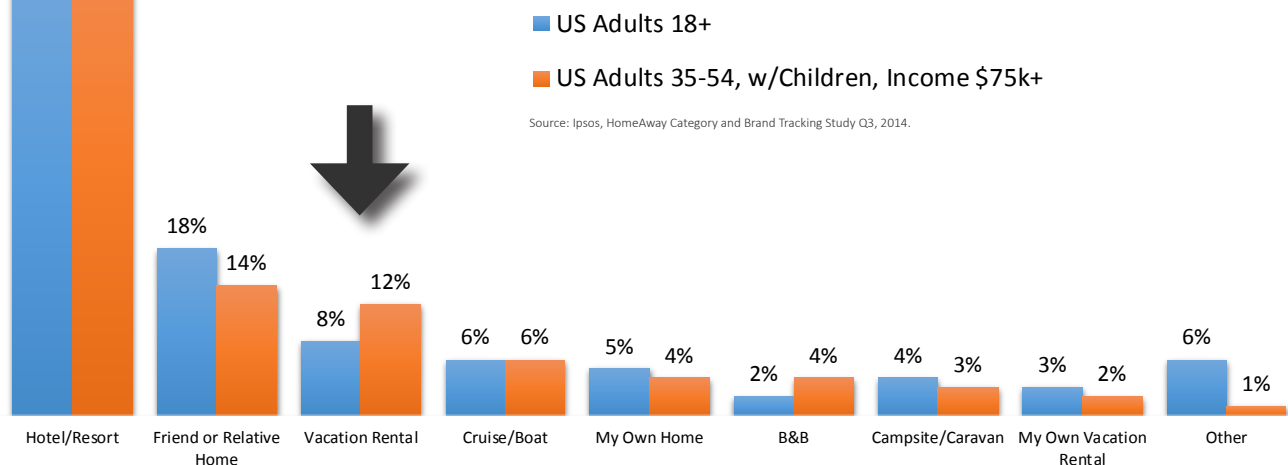


Source: Radius Global Research 2011, 2014 HomeAway Report.



ACCOMMODATION CHOSEN FOR LAST VACATION STAY

In terms of demand, vacation rentals have a relatively small but growing share of vacation stays.

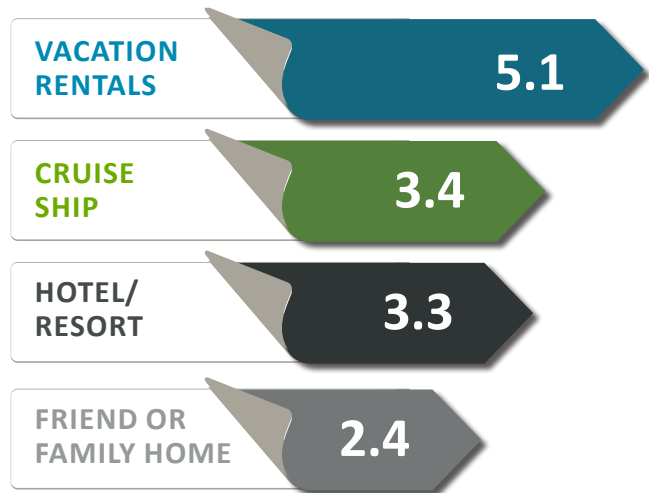


Source: Ipsos, HomeAway Category and Brand Tracking Study Q3, 2014.

AVERAGE TRAVEL PARTY SIZE

The average travel party size is higher for vacation home rentals (5.1) for long-stay (4+ days) vacationers than other types surveyed.

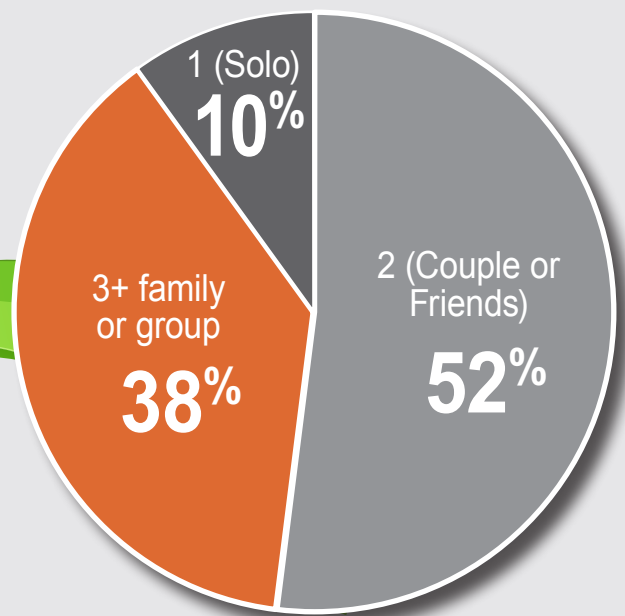
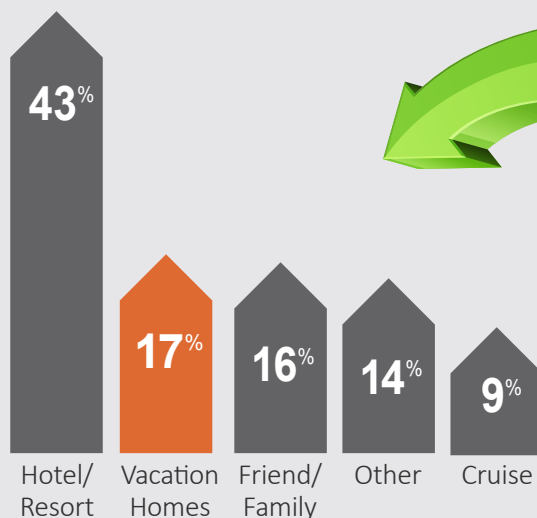
Source: HomeAway Research based on national survey of adults who take "Long" (4+ day) vacations, 2011



FAMILIES/GROUPS TAKE 38% OF ALL LONG-STAY VACATIONS

Long-stay vacations are typically identified as vacations that are four days or longer. Of long-stay vacationers, 38% are families or groups of three or more people.

ACCOMMODATION CHOSEN 3+ FAMILY OR GROUP



Source: HomeAway Research based on national survey of adults who take "Long" (4+ day) vacations, 2011

MAJOR PLAYERS LISTINGS

HOMEAWAY.COM

About: HomeAway, Inc. was founded in 2004. The company acquired several sites and consolidated them into a single vacation marketplace, launching HomeAway.com in June 2006.

Founded: 2004

Company: Publicly Traded

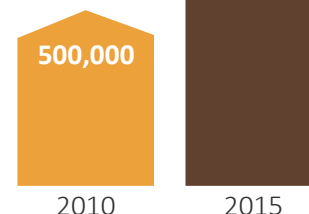
Major Purchase: HomeAway purchased VRBO (an acronym standing for “Vacation Rental by Owner”), in 2006. VRBO was founded in 1995.

Cost to List Property: Two options exist using HomeAway. Option #1: Annual \$349 fee and 0% per booking fee. Option #2: Annual \$0 fee and 10% per booking fee.

HOMEAWAY.COM LISTINGS

1.0M

HomeAway has grown from 500,000 active listings in 2010 to over 1 million active listings in 2015.



Source: Homeaway, VRBO and Wikipedia.

AIRBNB.COM

About: Airbnb is a website for people to list, find and rent lodging.

Founded: 2008

Company: Privately Held

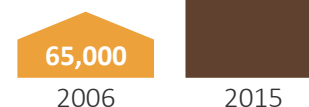
Bookings: Airbnb is on pace to generate more than **500 million bookings in 2015**, making it the largest lodging company in the world, though it doesn't own or manage a single property.

Cost to List Property: Airbnb charges a 3% service fee per booking.

AIRBNB.COM LISTINGS

1.5M

Airbnb has over 1,500,000 listings in 34,000 cities and 190 countries. Founded in August 2008 and headquartered in San Francisco, California. Airbnb is privately owned and operated by Airbnb, Inc.



Source: Airbnb and Wikipedia.

“AIRBNB IS THE LARGEST LODGING BOOKING COMPANY IN THE WORLD”

CELEBRATIONS AND FAMILY-FRIENDS

VACATION HOME RENTALS

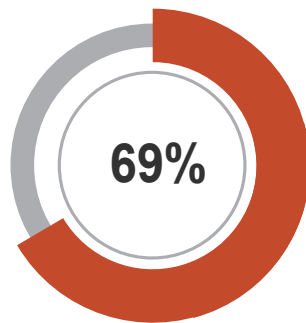
Vacation home rentals allow for large family groups to gather in one location which may not be possible in a resort or hotel. **Class reunions, wedding celebrations and other events often require large outdoor and indoor space.** Vacation home rentals often advertise larger capacities than what would be available in a resort or motel.



CELEBRATIONS

The emergence of **“Celebration Vacations”** has boosted the growth of the vacation rental category with 69% of leisure travelers having taken a vacation to celebrate a special occasion.

% of travelers
that have taken
a vacation to
celebrate a special
occasion



Source: Ypartnership/Harrison
Group 2011 Portrait of American
Traveler



FAMILY-FRIENDS

Year after year, trips taken with children, extended family and friends represent one of the only consistently rising types of leisure travel. Nearly one-quarter (23%) of leisure travelers are grandparents, and more than one-third (37%) have traveled with their grandchildren on one or more leisure trips during the past 12 months. As this trend increases in popularity, travelers are selecting vacation rental homes for a sense of privacy and comfort under one roof.

TOP 5 REASONS

WHY LEISURE TRAVELERS CHOOSE VACATION HOME RENTALS OVER TRADITIONAL HOTELS OR RESORTS

Travelers continue to want more value for what they pay, which is one of the many reasons why vacation home rentals are growing as an attractive option.

Vacation home rentals often are viewed as providing more value; in fact, more than nine in 10 travelers rate "value for the price" as the primary motivation to rent a vacation home as an alternative to staying in a traditional hotel or resort.

1

VALUE FOR PRICE

Vacation travelers rate "value for price" as the reason for selecting vacation home rentals compared to resorts and hotels.

94%

2

PRIVACY

Privacy is the second most popular reason for people selecting vacation home rentals. Most of the rentals are single family dwellings with outdoor space allowing vacationers to carry on activities in a more secluded location than a resort or motel.

90%

3

FULL KITCHEN FACILITIES

The third most popular reason travelers select vacation home rentals is that they offer full kitchens and bath facilities.

87%

4

AMENITIES

Vacation home rentals often feature great views, access to recreational areas, game rooms and other indoor recreational opportunities. They also allow for guests to participate in a variety of activities without interfering with other families or groups.

84%

5

MORE SPACE

Vacation home rentals often offer more space in bedrooms, common areas, and outside for outdoor activities.

81%

Source: Ypartnership/Harrison Group 2011 Portrait of American Travelers

SHARED ECONOMY



SHARED ECONOMY- WHAT IS IT

A **shared economy** can take a variety of forms. It is a collaborative movement and a marketplace arrangement that allows individuals, groups, corporations, non-profits and governments to optimize the use of their assets and resources through the sharing, redistribution and reuse of excess capacity in goods, products and services.

The emergence of mobile apps and the internet has provided greater ability to connect owners and users. In some instances, it can involve shared ownership and use.

FORMS OF SHARED ECONOMY

Agriculture

Garden sharing
Seed swap

Finance

Crowd funding
Peer-to-peer lending
Virtual currency

Hospitals

Rent a doctor-short stays

Real Estate

Co-living
Co-housing
Collaborative workspace
Co-working
Home exchange
Peer-to-peer rental
Physical storage

Labor

Local exchange trading
Time banks

Property

Bartering
Book swapping
Clothes swapping
Fractional ownership
Free-cycling
List of tool-lending libraries

Transportation

Bike sharing system
Carpool/ride sharing
Car-sharing
Real-time ride sharing
Share taxi
Share parking space
Transfer cars

Other

Pet sitting

POTENTIAL IMPACTS - SHARED ECONOMY ON COUNTY GOVERNMENT

PUBLIC SAFETY

Disputes, Behavior,
Criminal Activity

TAX

Property,
Transportation,
Sales and Use

SSTS

Septic
Capacity

LAND USE

Neighbor Impact,
Use Compatibility,
Traffic, Noise

WEB PRESENCE AND MARKETING

ONLINE GROWTH

Vacation home rentals have been offered for rent for decades, but with the internet, these rentals have the ability to market worldwide at a relatively lower price than traditional rentals. There still are places in the county, however, that are not online but advertise the traditional way through word of mouth, brochures and referrals.

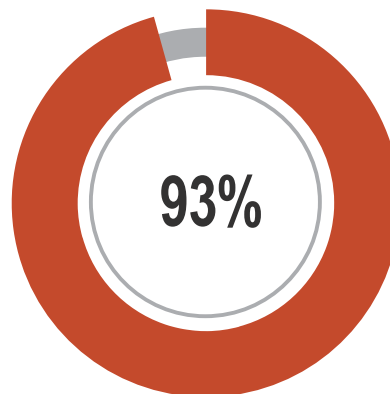
There are two main types of internet sites available to property owners. There are national brands which provide worldwide exposure for a property, and also more localized or regional branding websites. Some owners list availability on multiple sites. Below is a partial list of the many websites available for marketing vacation home rentals:

WEB BOOKING OFFERINGS ONLINE

93%

Today, nearly 93% of all companies are now offering the ability to book vacation home rentals online, based on an industry survey by the Vacation Rental Managers Association.

Source:VRMA's recent industry survey.

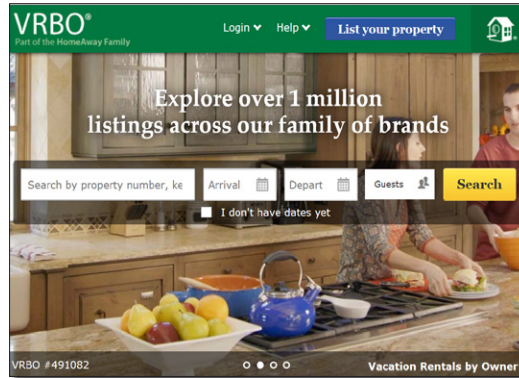


BOOKING SITES SAMPLING	
International Branding	Local Branding
www.homeaway.com	www.duluthmnvacationrentals.com
www.airbnb.com	www.visitduluth.com
www.vrbo.com	www.skylinevacationrental.com
www.tripping.com	www.duluth.flagshiprentals.com
www.lakeplace.com	www.lakevermilion.com
www.booking.com	www.elylodging.com
www.flipkey.com	www.voyagaire.com
www.rentmyvacationhome.com	www.wildwoodescape.com
www.tripadvisor.com	www.exploreminnesota.com
www.alwaysonvacation.com	www.cascadevacationrentals.com
	www.vermilioncabins.com

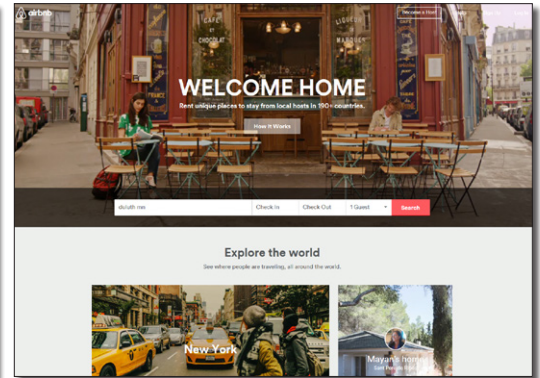
WEB PRESENCE AND MARKETING — VHR 01

INTERNATIONAL

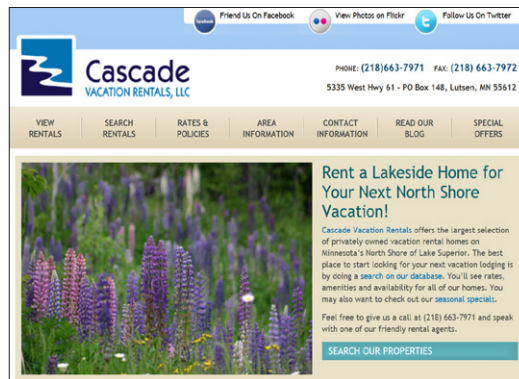
VRBO



AIRBNB



CASCADE VACATION RENTALS

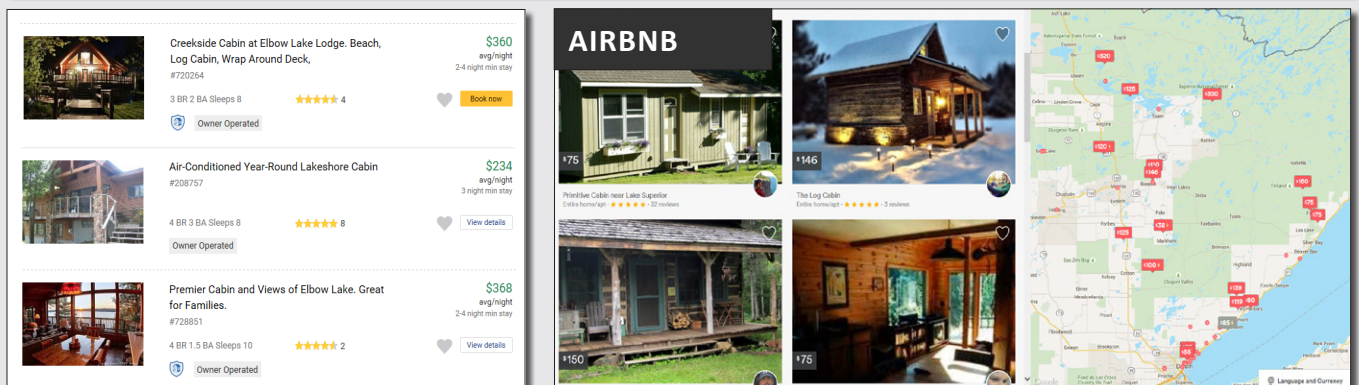
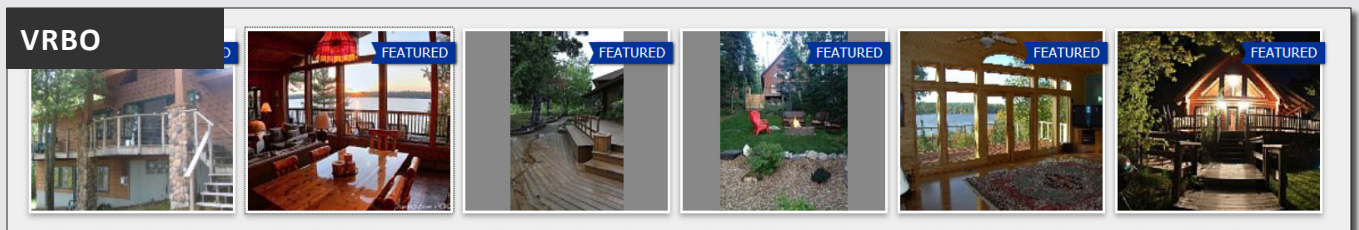


ELY LODGING



LOCAL

EXAMPLE LISTINGS



COUNTY STATISTICS

ESTIMATED ONLINE VACATION HOME RENTALS

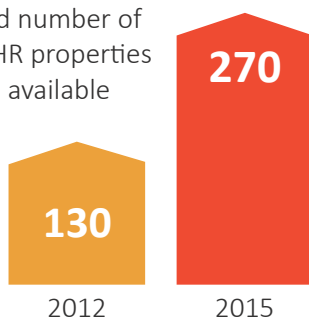
Vacation home rentals have increased during the last decade in part as a result of online listing from the various services. This report only addresses online listings. Additional rentals exist but may use word of mouth, as well as brochures to find renters.

# OF VACATION PROPERTIES - ONLINE							
BY TYPE (Data as of 8/1/2015)							
Class Code	Tax Classification		Marketed Units				% of Total
			Traditional Market Only	Emerging Market Only	Marketed Both	Total	
201, 203	Residential 1 Unit	House	87	42	7	136	50%
151, 152	Non-Commercial Seasonal Res. Rec.	Cabin	95	5	3	103	39%
221	Ma & Pa Resort	Resort	8	1	0	9	3%
200	Residential 2-3 Units or Vacant Land	Duplex/Triplex	4	2	0	6	2%
205	Apartment (4 or more units)	Multi-Family	1	0	2	3	1%
232	Commercial Seasonal Res Rec	Resort	2	0	0	2	1%
233	Commercial Preferred	Hotel	2	0	0	2	1%
	Not identified- Unable to Locate		3	6	0	9	3%
	TOTAL		202	56	12	270	100%
	City of Duluth		31	30	5	66	24%
	Remainder of County		171	26	7	204	76%
	Shoreland		172	15	5	192	71%
	Non-Shoreland		30	41	7	78	29%

Source: St Louis County Assessors MCIS CAMA data. Data as of August 1, 2015.

COUNTY ONLINE VHR GROWTH

Estimated number of online VHR properties based on available data.



Source: St. Louis County.

Note: There are 947 Minnesota Power lease properties in St. Louis County of which 483 are seasonal and 435 are year-round occupancy.

Minnesota Power (MP) Lease Sites

The general policy is that using MP lease property for vacation home rentals is **NOT** allowed under the current leasing program. MP does not see this changing anytime soon.

County Land Use Administered Areas

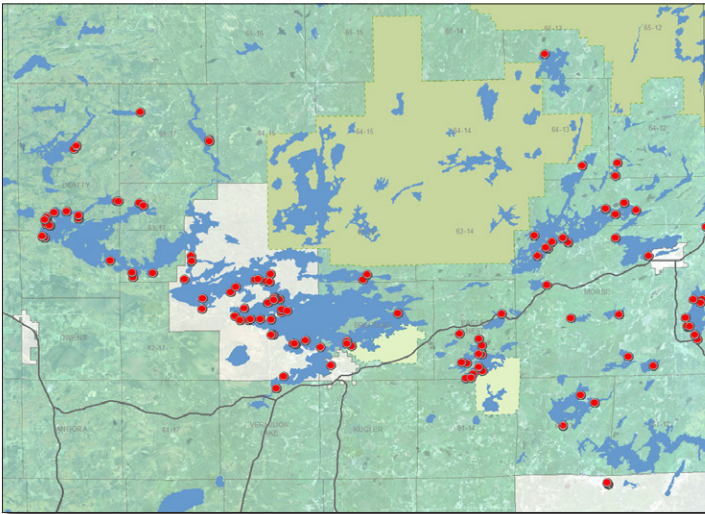
121 of 270 (45%) vacation home rentals are within St. Louis County administered land use areas.
112 VRBO, 9 Airbnb, (5 Both)

MAP

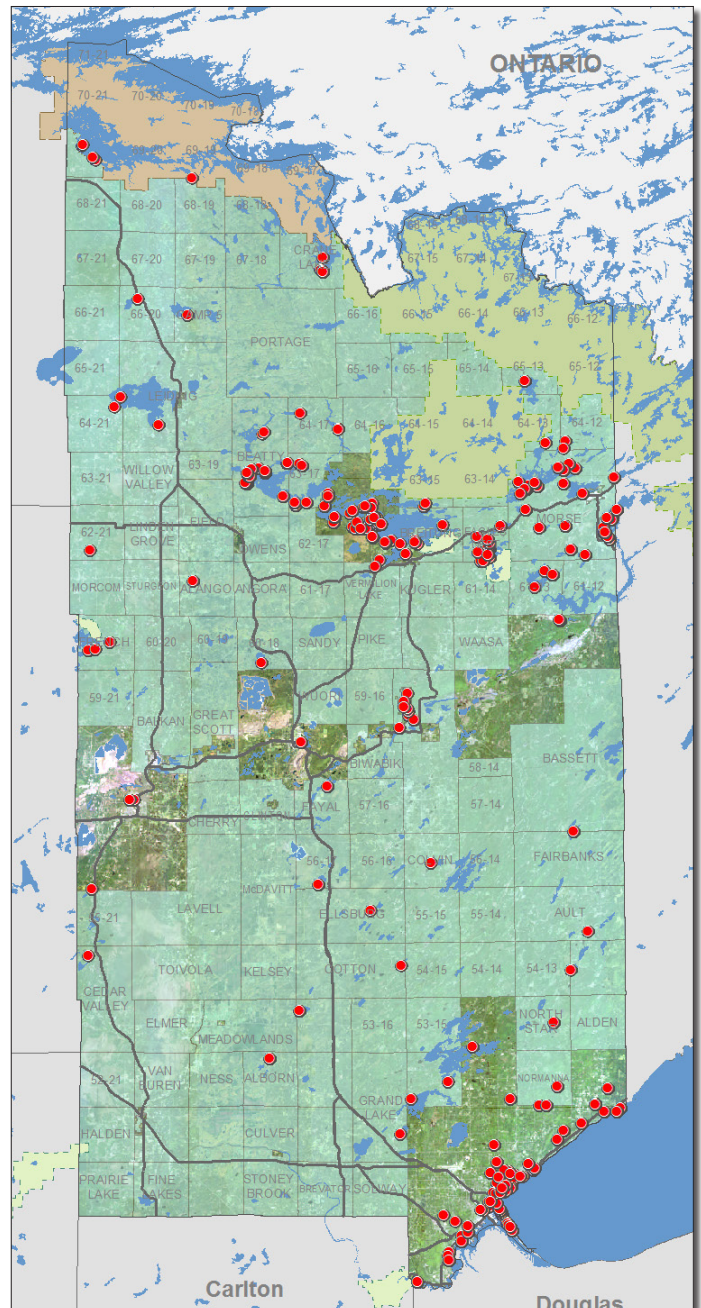
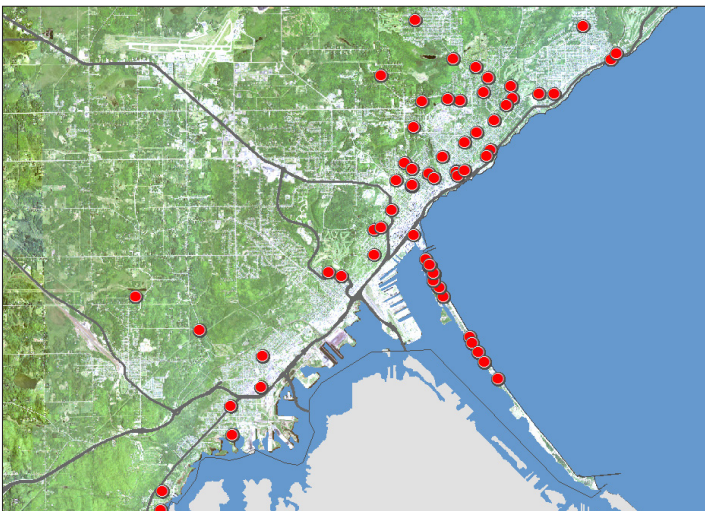
LOCATION DISTRIBUTION- ALL VHR

The most popular lakes under county jurisdiction with vacation home rental properties are Vermilion with 67, Lake Superior 15, Burntside 12, Eagles Nest Chain 11, White Iron 9, Wynne 8, Crane 7, and Kabetogama 7.

NORTHERN LAKES



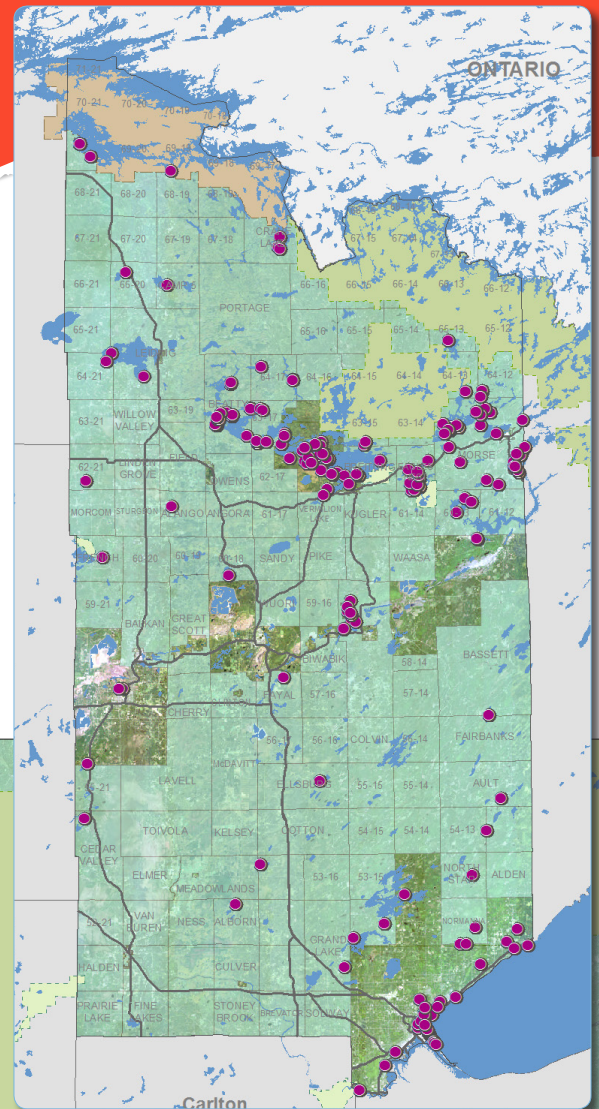
SOUTHERN AREA



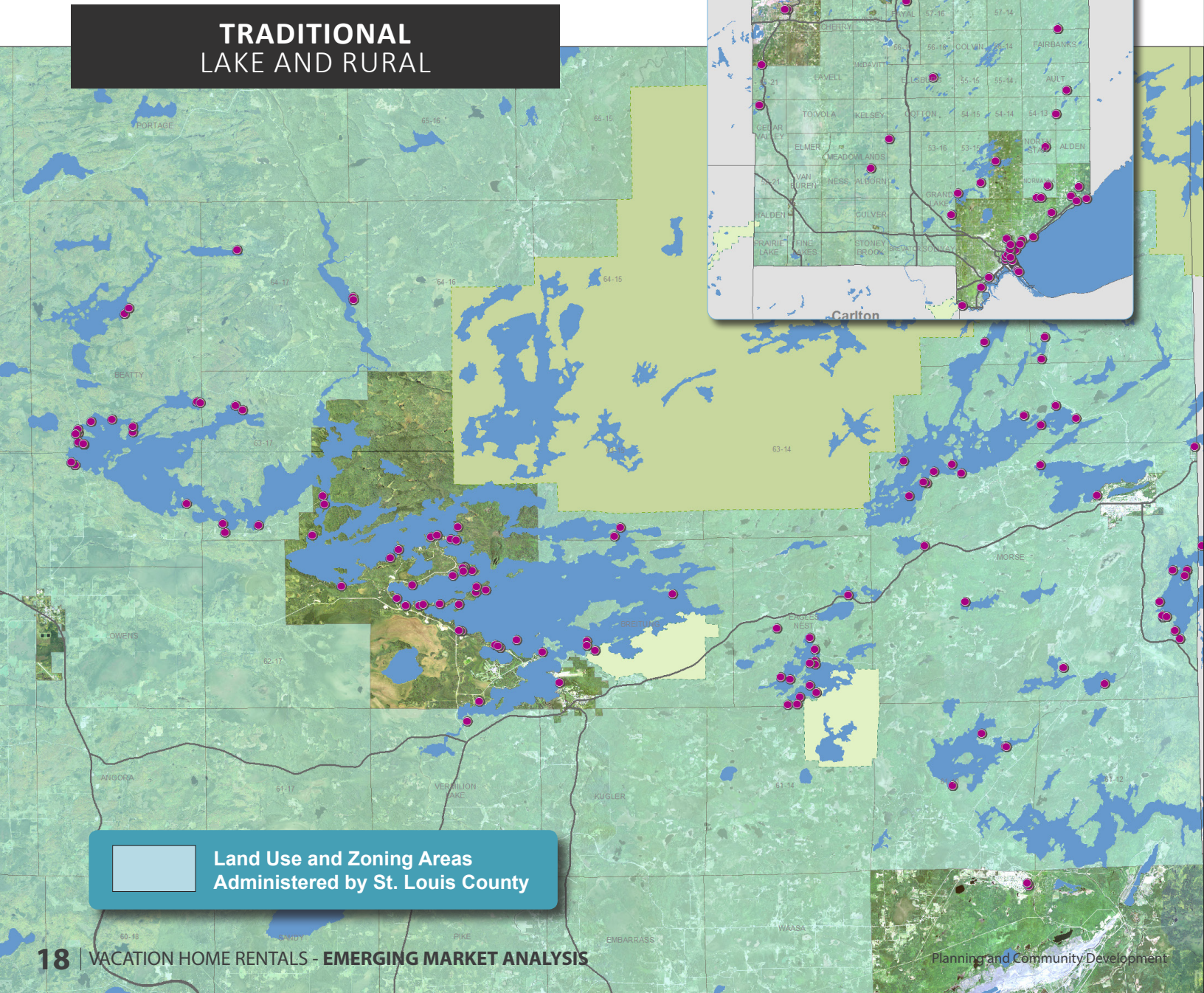
Source: St. Louis County Planning and Community Development, Assessors MCIS CAMA data.

TRADITIONAL MARKET VACATION HOME RENTALS

The traditional market for vacation home rentals has primarily been located on or near shoreland and recreational areas in Duluth, Lake Vermilion, Giants Ridge, Crane, Kabetogama, Eagles Nest, Burntside, and White Iron lakes. The following map shows this shoreland concentration.



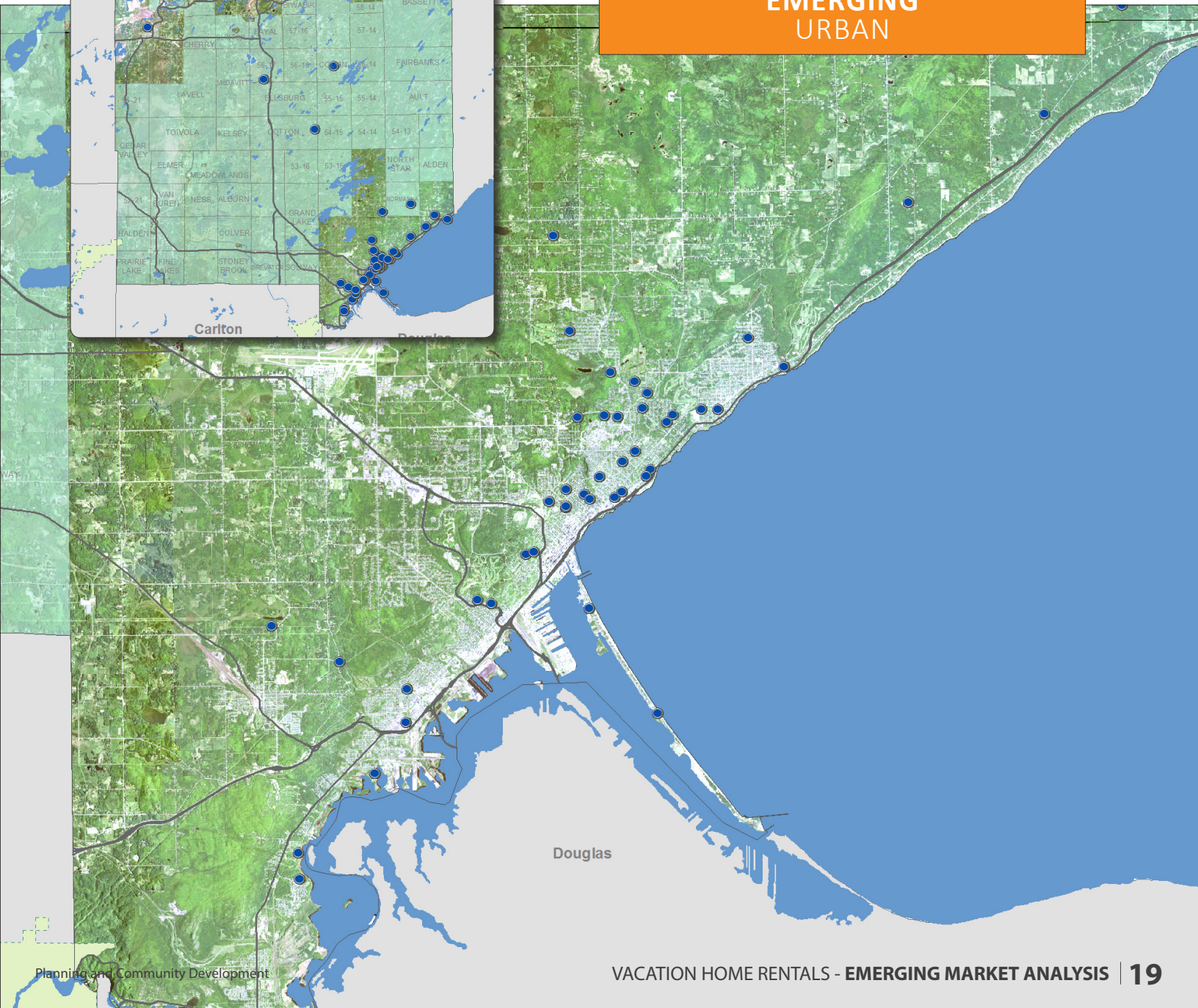
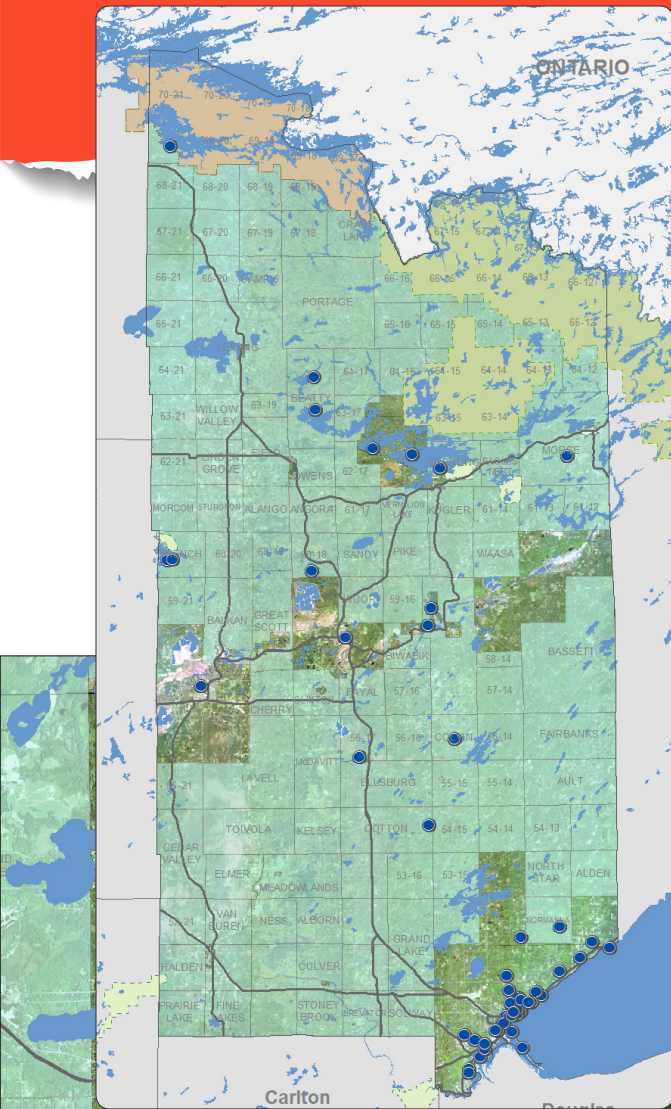
TRADITIONAL LAKE AND RURAL



EMERGING MARKET VACATION RENTALS (AIRBNB)

The emerging market for vacation home rentals are now offered in urban areas, such as the city of Duluth, with a higher need for travel accommodations.

**EMERGING
URBAN**



CHALLENGES

NEIGHBORHOOD IMPACT & LIVABILITY

Many of the vacation home rentals are located in high density residential areas around lakes. Visitors may not be familiar with how their actions can affect a neighbor or those living on the lake. Vacationers who stay at resorts are subject to the rules of the resort and resort staff can help them with questions regarding the lake or trails. This oversight does not appear to be a regular feature of vacation home rentals.



People traveling to county lakes, rural areas and cities are coming to have fun and take part in the multitude of activities available to them. Some of the activities associated with visitors can lead to increased noise in the area they are visiting. Conversely, people who own a lake cabin or have friends and family over to their house can be just as noisy or participate in behaviors that can also be disruptive to neighbors.

Vacation home renters, unlike most property owners, are often not familiar with the area, and this lack of familiarity may cause the following problems:

- **Awareness:** Vacation home renters may not be aware of or interested in the impact of activity on neighbors.
- **Trespass:** Wandering onto neighbor's property, particularly in rural areas where property lines are not clear.
- **Vacant Land Utilization:** Thinking vacant land is public land, utilizing private property and possibly damaging it or leaving litter.



NOISE AND BEHAVIOR

- **Trail Misuse:** Not understanding or properly utilizing trails; such as taking an ATV onto a hiking trail.
- **Lake Rules:** Not being aware of lake usage issues, including no-wake zones, avoiding certain areas and general appropriate lake behavior.
- **Intensity of Use:** While a single family home or cabin may have a large gathering occasionally, the turnover at vacation properties increases the chances of a large gathering every week with increased impact.
- **Late Night Activities (Quiet Time):** Resorts, campgrounds and motels have management which oversee guest activities. Private homeowners who live on the property are also in a position to hold down late night activities. However, there may be times where no on-site management exists and noise and behavior can extend late into the night and early morning hours.

DID YOU KNOW!
Noise and behavior at vacation properties were identified as major concerns facing communities.

Source: 2009, Mn Vacation Home Rental Task Force Report

TURNOVER

Turnover can cause challenges to neighborhood livability with new people coming and going every few days. A typical vacation home rental could have four to 15 different groups visiting a rental in a

month. This turnover requires an ongoing effort to inform visitors of expectations and may increase the likelihood that rules will not be respected.



HOURS OF OPERATION

In contrast to vacation home renters, private homeowners have no restrictions on hours they can be outside enjoying their property and area. There are disturbing the peace and public nuisance rules that restrict activity, as well as the social expectations of being a good neighbor. However, with renters there are

certain types of rental activities most likely to cause problems such as celebrations for reunions and wedding parties. Resort and bed and breakfast owners may impose quiet times in order to not impact other guests and have the ability to evict persons for causing trouble.



TRAFFIC

The county's 2015 count of vacation home rentals showed that the capacity of these sites range from sleeping 4 to 24 people, depending upon size of the structure and number of bedrooms. It is likely that these numbers would result in slightly higher traffic than the typical seasonal recreation

property. Vacation home rentals tend to be scattered throughout an area, and therefore the slight increase in traffic may not be an issue. The increase in traffic is more of a concern on urban residential streets.



ROAD RIGHTS & MAINTENANCE/WATER ACCESS

Most vacation home rentals are on publicly maintained roads in which case road access and maintenance is not an issue. However, some sites are on private roads where maintenance is by a road association or home owners association. These roads may have restrictions on

who can use them. There is also an issue of what would be a fair share for use payment. The dispute over fair payment of maintenance may lead to pressure on the county or municipality to take over the road.



PARKING

The vacation home rental listings would indicate that parking needs are similar to a single family home that would have visitors. One or two cars may be sufficient for a small family gathering while major events, such as a reunion or wedding parties, could require additional spaces

and may involve parking on the road. Even when there is sufficient parking on site, a large number of vehicles could hinder access for emergency vehicles.

CHALLENGES

HEALTH & SAFETY

State and county regulations address health and safety issues relating to resorts and bed and breakfasts. They exist to protect guests, the environment, and neighboring properties. Vacation home rentals do not address these issues in the same or consistent manner as other businesses that offer accommodations.



FIRE PROTECTION

The State Building and Fire codes apply to private residential dwellings, as well as commercial facilities such as resorts. This means that there are standards relating to the size of bedrooms (based on capacity), egress windows, smoke and carbon monoxide detectors, construction materials and doors. All

licensed contractors are required to follow the codes. The State Health Department reviews structures for fire code compliance. The state fire inspector inspects properties once every three years when there are six or more sleeping rooms in one building.



CROWDING

Vacation home rentals can bring a high number of people into a residential area on a daily or weekly basis. This can be concerning to people who purchased property in an area expecting that

they are in a private residential area with residential type activities versus commercial rental type activities.



LAW ENFORCEMENT

Law enforcement outside of the city limits is the primary responsibility of the St. Louis County Sheriff. The most likely types of complaints are noise, behavior, neighbor disputes, trespass and damage to property. It is difficult to determine

if or at what level vacation home rental properties have had complaints to law enforcement due to the vacation times homes are rented.



ADEQUATE WATER

Resorts, bed and breakfasts and other licensed facilities are required to have drinking water tested for bacteria (total coliform), nitrates, and nitrites if they are not on a public water supply. Vacation

home rentals would be required to have such tests if they were licensed by the State Health Department.



ADEQUATE SEWER

The use of an undersized septic system for extended periods may result in the need to pump the septic tank more frequently or could result in the failure of the system. There is currently no requirement for notification to St. Louis County Environmental Services Department

regarding the use of a dwelling for rental purposes and there is no process that would require a certificate of compliance for such systems. The exception would be the Point of Sale program, certain permit or variance requests or if a home is already on an operating permit.

CHALLENGES

ENVIRONMENT

Most of the non-city vacation home rentals are on county lakes. Lake water quality is important for all visitors, county residents and is a significant economic resource.



LAKE IMPACT

Most of the rural vacation home rentals are on lakes. The impact from a rental is more than just on the neighbors. It could impact the lake's environment including pollution resulting from septic overuse, not knowing navigation buoys, and general

lake usage behavior. Furthermore, resort business owners have indicated that resort activities and success is linked to the water quality of the lake.

CHALLENGES

LEVEL PLAYING FIELD

Resorts, B&B's and hotel owners have expressed concern that they cannot compete on a level playing field with vacation home rentals. The following table is a comparison between hotels, resorts, B&B and vacation home rentals related to regulation and taxes.

LEVEL PLAYING FIELD				
				
ST. LOUIS COUNTY				
	Resorts	Hotels	B&B	Vacation Home Rentals
Local Zoning Regulations	Yes	Yes	Yes	No
MN Drinking Water Test (Annual)	Yes	Yes	Yes	No
MN Local Fire Inspections (Annual)	Yes	Yes	Yes	No ¹
MN Health Inspections (Annual)	Yes	Yes	Yes	No ²
Local Septic System Inspections (Regular)	Yes	Yes	Yes	Inconsistent
Bedroom Policy w/Approved Septic	2 persons per bedroom	2 persons per bedroom	2 persons per bedroom	2+ persons per bedroom
On-Site Management	Yes	Yes	Yes	No
Business Known by Residents/Neighbors	Yes ³	Yes ³	Yes ³	Inconsistent ⁴
Property Tax	Yes	Yes	Yes	Yes-Varying
Minnesota Sales and Use Tax	Yes	Yes	Yes	Inconsistent
Local Sales and Use Tax	Yes	Yes	Yes	Inconsistent
Lodging Tax (Paid to Promote Area)	Yes	Yes	Yes	Inconsistent
Food and Beverage Tax	Yes	Yes	Yes	Inconsistent
County Transit Tax	Yes	Yes	Yes	Inconsistent

1- Test required if inspected by state.

2- No inspections unless state of MN Dept of Health becomes aware of operation.

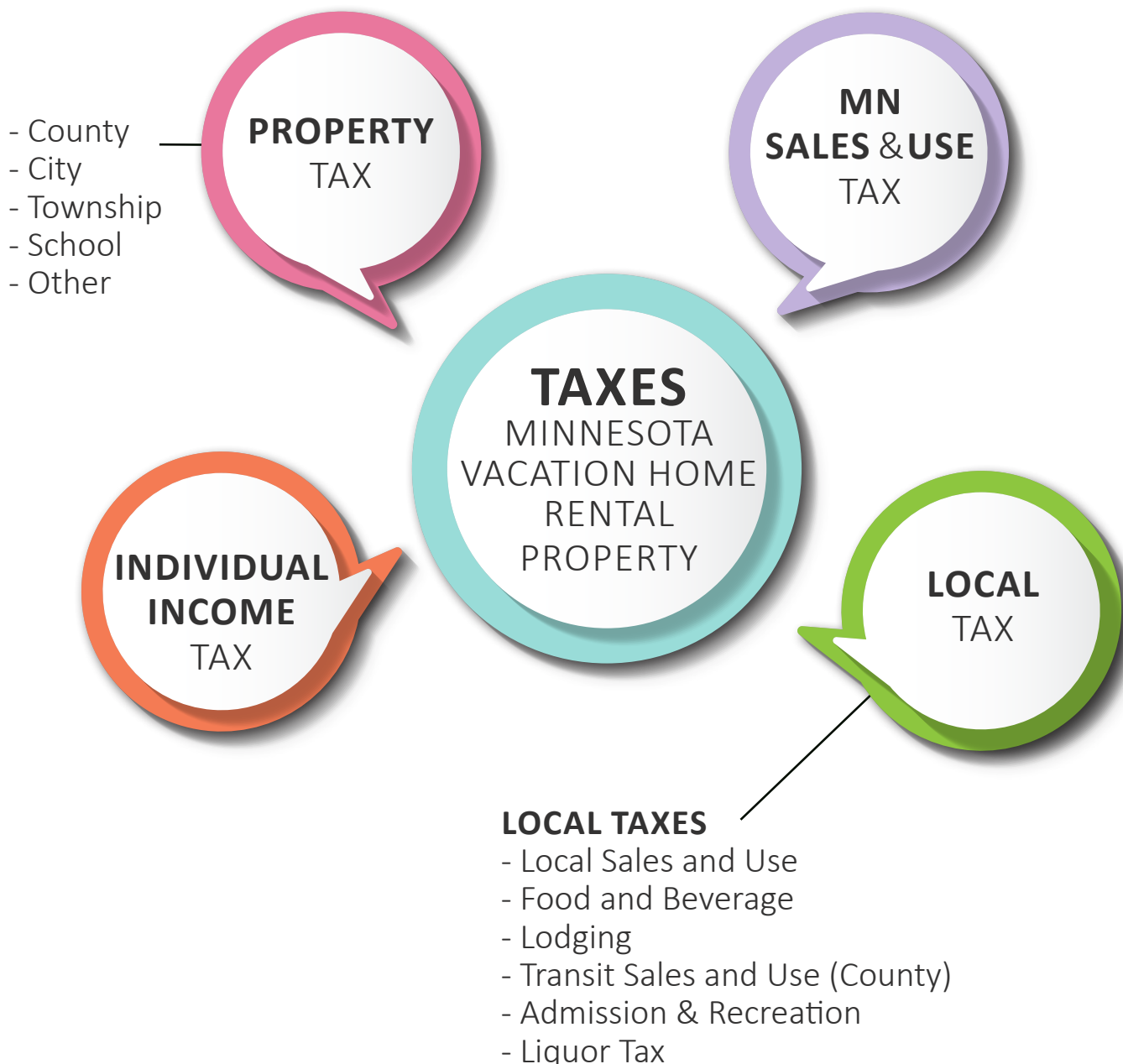
3- Resorts and other commercial uses are usually well established uses a new homebuyer should be aware of impacts.

4-Will appear in a neighborhood without notice or neighbor input. Unclear as to who should be contacted if there are problems.

OVERVIEW

TAXES ON MINNESOTA'S VACATION HOME RENTAL PROPERTY

Vacation home rentals are subject to a range of taxes from local to state taxes that the owner is required to process or pay. Below are some of the main property and sales taxes that vacation home rentals may encounter.



TAX IMPACT

SCENARIOS

Businesses and homes pay a variety of taxes. This table uses Greenwood Township as an example and shows the level of property taxes paid for by homes and businesses using a \$300,000 estimated market value. Furthermore, it reviews various levels of Minnesota sales and use and local tax impacts.

2015 TAX IMPACT EXAMPLE - GREENWOOD TOWNSHIP												
VACATION HOME RENTAL												
HOUSE ¹ : \$300,000 EMV-2015 TAX RATE SALES REVENUE ² : \$11,025	Tax	VHR Cabin		VHR House Homesteaded		VHR House Non-Homesteaded		Residential 2-3 Unit Non-4bb	Ma & Pa Resort ³	Resort ³	B&B ³	Hotel ³
		Scenario #1	Scenario #2	Scenario #3	Scenario #4	Scenario #5	Scenario #6					
Property Tax								\$3,930	\$1,605	\$3,862	\$3,930	\$9,312
- Non-Commercial Seasonal Rec. (Non-Homesteaded)- Cabin		\$3,427	\$3,427									
- Residential 1 Unit: Homesteaded				\$2,824	\$2,824							
- Residential 1 Unit: Non-Homesteaded						\$3,211	\$3,211					
Minnesota Sales and Use Tax	6.875%	No taxes Paid	\$758	No taxes Paid	\$758	No taxes Paid	\$758	\$758	\$758	\$758	\$758	\$758
Local Sales and Use Tax	1.0%		\$110		\$110		\$110	\$110	\$110	\$110	\$110	\$110
Local Food and Beverage Tax	1.0%		0						\$110	\$110	\$110	\$110
Local Lodging Tax	3.0%		\$331		\$331		\$331	\$331	\$331	\$331	\$331	\$331
Local SLC Transit Sales and Use Tax	0.5%		\$55		\$55		\$55	\$55	\$55	\$55	\$55	\$55
TOTAL TAXES (Estimated)		3,427	\$4,681	\$2,824	4,078	3,211	\$4,465	\$5,184	\$2,969	\$5,226	\$5,294	10,676

1- Based on the review of average vacation rental estimated market value.

2- Based on 70% occupancy from June 1st to Sept 15th (105 days) at \$150 per night revenue.

3- The County is aware that these facilities pay more total taxes than shown based upon actual property assessment. This table is intended to allow for a comparison among different property classes. Furthermore, the county is aware that resorts and hotels may have a higher number of units available to rent related to estimated market value.

Source: St Louis County Assessors MCIS CAMA data, County Assessors, and Planning and Community Development Review.

REVENUE (ESTIMATED) VACATION HOME RENTALS	
Potential Rental Days June 1 st to Sept 15 th	105
Rental Rate (per Night)	x 150
Sub-Total	= \$15,750
70% Occupancy Rate ²	x 70%
Total Revenue	\$11,025

PROPERTY TAX

HOW ARE PROPERTY TAXES CALCULATED

Assessors determine market value and classification of property based on how it is used as of January 2nd of each year. Each class of property (such as resort, residential, apartment, and commercial) have a different classification rate set by the legislature. The system insures that residential properties have a lower classification rate than commercial or industrial properties. The following table shows the class type for vacation home rentals in St. Louis County:

ESTIMATED MARKET VALUE VACATION HOME RENTALS	
Traditional Market	\$62,030,400
Emerging Market	\$8,853,400
Both Market	\$2,327,600
TOTAL	\$73,211,400

PROPERTY TAX CLASSIFICATION AND EMV VACATION HOME RENTALS						
Tax Classification			Number of Units	Homestead	Non Homestead	Average Total EMV Value
TRADITIONAL MARKET ONLY						
201, 203	Residential 1 Unit	House	87	51	36	\$343,041
151, 152	Non-Commercial Seasonal Res. Rec.	Cabin	95	0	95	\$298,032
221	Ma & Pa Resort	Resort	8	0	8	\$115,350
200	Residential 2-3 Units or Vacant Land	Duplex/Triplex	4	1	3	\$354,950
205	Apartment (4 or more units)	Multi-Family	1	0	1	\$359,500
232	Commercial Seasonal Res Rec	Resort	2	0	2	\$406,800
233	Commercial Preferred	Hotel	2	0	2	\$178,550
	Not identified- Unable to Locate		3	Unavailable	Unavailable	Unavailable
TOTALS			199	52	147	\$311,711¹
EMERGING MARKET ONLY						
201, 203	Residential 1 Unit	House	42	37	5	\$191,516
151, 152	Non-Commercial Seasonal Res. Rec.	Cabin	5	0	5	\$84,420
221	Ma & Pa Resort	Resort	1	0	1	\$49,600
200	Residential 2-3 Units or Vacant Land	Duplex/Triplex	2	1	1	\$169,000
205	Apartment (4 or more units)	Multi-Family	0	0	0	na
232	Commercial Seasonal Res Rec	Resort	0	0	0	na
233	Commercial Preferred	Hotel	0	0	0	na
	Not identified- Unable to Locate		6	Unavailable	Unavailable	na
TOTALS			50	38	12	\$177,068

Source: St Louis County Assessors MCIS CAMA data. Some minor adjustments were made to address null values. 12 vacation rental type classified as "in both" markets are not included.
1- Null EMV values are not calculated in final total.

Property Tax Assessment Classification Definitions

Residential Class 201 and 203: Class 201 is residential property.

Non-Commercial Seasonal Res Rec: A basic cabin property.

Ma & Pa Resort: Is one used for less than 250 days/yr, and is a lower rate up until a certain amount of value.

Two – three units: duplex, 3-unit apt situation. Class 200 is used for these, but is also used for vacant land in a plat or not "rural in nature," (may be bare or have a structure total less than 300 sq. ft.).

Apartment 4 or more: An apartment building that has 4 or more units.

Commercial Preferred: There are several categories

that have tiers. This means they get a lower rate for the first amount of value (determined by the DOR). The two classes for commercial are 233 & 243 (243 being non-preferred).

Commercial Seasonal Res Rec (Resort): Is a full-on resort.

CLASSIFICATION OF PROPERTY - BASED ON ACTUAL USE

The property tax system in Minnesota allows the classification of property in many different ways. Assessors are directed to classify property based upon actual use, not intent. Residential use property, including those dwellings which have been used for short term vacation home rentals, have been primarily classed as:

- **1a Residential Homestead**
Residential property occupied and used for the purposes of a homestead by its owner, or a qualifying relative, who must be a Minnesota resident.
- **4c(12) Seasonal Recreational Residential**
A property devoted to noncommercial temporary and seasonal residential occupancy for recreational purposes. These are typically cabins.
To change any assessment classification could require a Minnesota statutory change.
- **4bb or 4b(1) Residential Non-homestead**
Residential property that someone occupies as their primary place of residence, but the occupant does not qualify for residential homestead classification. Long-term rental properties fall under this classification.

CHALLENGES - IN DETERMINING USE

The Department of Revenue advises that the primary actual use of a property should determine the basis of classification. It is possible that for some residential properties, short term rental is the primary use, with other residential or seasonal occupancy being an occasional use. In that situation, the classification of the property is likely commercial. There are several factors which complicate this use determination:

Homesteads

- Some owners may rent their homestead property on a short term basis while they are away. This does not preclude them from obtaining residential homestead classification if the property is their principal place of residence and they intend to return after a temporary absence. The law does not provide for a minimum occupancy requirement by the owner (number of days at the property) in order to receive this classification.

Actual vs. Intended vs. Primary Use

- Many parties use the internet to advertise the availability of their property for short term rental. Website data may indicate an intent, but does not provide confirmation of actual use. Other properties may be rented without online marketing. There is also no statutory definition of how many days a property can be rented short term before it becomes a primary use.

Lack of Information

- The only occupancy information assessors maintain is for the homestead classification. Assessors have not tracked individual short term rentals, and homeowners are not obligated to provide this information to the assessor. The decision as to whether a property is rented could change at any time.

Resources

- Tracking down and compiling this data would require additional resources. It is not clear whether data could be obtained from all parcels that may be rented on a short-term basis.

Without a method to track what properties are actually being rented on a short-term basis, assessors throughout Minnesota have achieved equalization by primarily classifying residential dwellings using the three categories above.

MINNESOTA SALES AND USE TAX

HOW ARE TAXES CALCULATED

Minnesota has a **6.875%** general sales tax rate. The sales tax applies to retail sales of taxable services and/or tangible personal property made in Minnesota. Businesses collect the sales tax due on items and services sold at retail locations on behalf of the state. Sales tax may either be added separately to the selling price or included in the selling price. If the tax is included in the selling price, the item must be marked “tax included” or a sign posted indicating that tax is included. You must register to collect sales tax, if you make taxable retail sales in Minnesota. The state’s use tax is the same rate as sales tax of 6.875%.

Lodging facilities include

(but are not limited to):

- Bed and breakfasts
- Hotels
- Campgrounds
- Motels
- Resorts
- Rooming houses
- Trailer camps
- **Vacation home rentals**

Lodging facilities

must charge sales tax on short-term lodging and certain related services. This may also include local sales taxes or city lodging taxes. Lodging is the rental of a room or rooms for a temporary

place to stay or live. Sales tax is charged on lodging and lodging-related services furnished for periods of:

- Less than 30 days; and
- 30 days or more if there is no enforceable written lease agreement

MN RATE
6.875%

Isolated and Occasional Sales Exemption

Individuals are **not required** to register to collect sales tax if they are not considered to be in the business of renting or leasing their home or similar building. An individual is considered to be in the business if any of the following is true:

- The dwelling is licensed or required to be licensed; or
- The dwelling is leased or rented for a period of 15 days or more in a calendar year; or
- The rental or lease of the dwelling is advertised or otherwise offered to the public.

WHEN AND HOW - TAX IS COLLECTED

All retailers who are registered to collect Minnesota sales tax and are doing business in Minnesota.

SALES TAX ANALYSIS EXISTING VACATION HOME RENTALS		
Tax Percent	Number of Units	Percent
Under 6.875	7	3.2%
6.875	17	7.9
6.88-7.374	4	1.8
7.375-7.380	13	6.1
7.4-9.80	13	6.1
9.875	22	10.3
9.876-10.374	5	2.3
10.375	13	6.1
10.875	8	3.7
10.925-12.880	13	6.1
Not available	2	1.0
Subject to MN tax	1	.9
Tax not included	63	29.5
Tax not listed	32	15.0
Total	213	100%

Source: St Louis County Planning and Community Development review.

Source: Minnesota Department of Revenue.

LOCAL TAX

HOW ARE THE LOCAL TAXES CALCULATED

LOCAL SALES AND USE TAX: The sales tax applies to retail sales of taxable services and/or tangible personal property made in Minnesota.

FOOD & BEVERAGE TAX: Tax applies to sales of food and beverages by a restaurant or place of refreshment located within certain areas, whether the food or beverages are for consumption on or off the premises. The state also requires a liquor tax.

TRANSIT SALES AND USE TAX: St. Louis County will have a 0.5 percent transit sales and use tax and a \$20 vehicle excise tax. The Minnesota Department of Revenue will administer these taxes. Revenues will fund the projects identified in the St. Louis County Transportation Plan. This 0.5 percent transit tax applies to retail sales made within St. Louis County.

ADMISSION & RECREATION TAX: Tax applies to all admissions to entertainment and recreational facilities and the rental of all recreation equipment located within the Giants Ridge Recreation area, except the purchase of season tickets or passes, which are exempt from this tax.

LODGING TAX: Tax applies to all sales of lodging and related services at typically 3% within a certain area. Areas with lodging taxes are listed below:

COLLECTED BY LOCAL ASSOCIATIONS LODGING TAX		
	Tax Type	Tax %
Ash River www.ashriver.com	Lodging Tax	3.00%
Crane Lake www.visitcranelake.com	Lodging Tax	3.00%
Duluth www.duluthmn.gov (City Collection)	Lodging Tax Add'l Lodging Tax-30+ Rooms	3.00% 2.5%
Ely Area www.ely.org	Lodging Tax	3.00%
Iron Range Tourism Bureau Joint Powers Agreement between Hibbing, Chisholm, Mountain Iron, Virginia, Eveleth, Gilbert, Biwabik, Hoyt Lakes, Aurora, Meadowlands and Embarrass www.ironrange.org	Lodging Tax	3.00%
Kabetogama www.kabetogama.com	Lodging Tax	3.00%
Orr-Pelican www.orrpelicanlake.com	Lodging Tax	3.00%
Rainy Convention-Visitors Bureau International Falls, Ranier, and Rainy Lakes	Lodging Tax	3.00%
Vermilion area www.lakevermillionresorts.com	Lodging Tax	3.00%

Source: St Louis County Planning and Community Development review.

LOCAL TAXES

COLLECTED BY THE STATE

The Minnesota Department of Revenue currently administers many local tax collection efforts. Local sales tax applies to retail sales made and taxable services provided within the local taxing area.

Who is required to collect local tax

All retailers who are registered to collect Minnesota sales tax and are doing business in an area with a local tax must be registered with the Minnesota Department of Revenue to collect that local tax.

Source: Minnesota Department of Revenue.

COLLECTED BY THE STATE LOCAL TAXES			
	Tax Type	Effective	Tax %
St. Louis County	Transit Sales and Use Tax	4/1/15	0.50%
Duluth	Sales and Use Tax	1/1/70	1.00%
Giants Ridge Recreation Area (city of Biwabik)	Admissions and Recreation Tax	7/1/11	2.00%
	Food and Beverage Tax	7/1/11	1.00%
	Lodging Tax	7/1/11	2.00%
Hermantown	Sales and Use Tax	4/1/13	1.00%
Proctor	Sales and Use Tax	4/1/00	0.50%
	Food and Beverage Tax	4/1/15	1.00%
	General Local Tax	-	0.50%

Source: St Louis County Planning and Community Development review.

PERMITTING & LICENSING STATE OF MINNESOTA

While the State of Minnesota does not have a specific definition of “vacation home rental property,” many legal and regulatory issues related to vacation home rentals are currently covered in state and local statutes and regulations based upon lodging type.

FIRE CODE (REGULATION): Minimum state standards must be followed for vacation home rental property including, but not limited to, smoke detectors, egress windows and carbon monoxide detectors. The state fire marshal only inspects facilities with 6 or more sleeping rooms. Very few vacation home rentals would fall under this category; however, if a rental did have 6 or more sleeping rooms, there would be inspections every three years. The only time the state fire marshal inspects a private rental with less than 6 sleeping rooms is if a formal complaint is made against a building and with permission of the local fire chief. The emphasis with the fire marshal is education so people better understand safety issues.

HEALTH SAFETY (LICENSE): The Minnesota Department of Health (MDH) and local public health agencies license and inspect vacation home rentals in Minnesota per state statute. ***MDH states that a Vacation Home Rental needs a license if duration of stay is less than 7 days (per hotel definition).*** However, loopholes exist in that if a vacation home rental is rented more than 7 days and is under five units then no licensing is required. If any units are over five units, then MDH requires a license. The following are rules and statutes that govern these rentals:

1. Food, Beverage and Lodging Establishments: Licensing requirements, rules and fees. MN Statutes, Chapter 157.

2. Lodging Establishments:

Administrative rules on sanitation, building, floor, wall and ceiling, screening, lighting and ventilation, space, bedding and linen, room furnishing, toilet, water supply, hand-washing, eating utensils and drinking vessels,

waste disposal, insect and rodent control, personnel health and cleanliness, cleanliness of premises, fire protection, plumbing, and ice dispensing. MN Rules, chapter 4625.

SEPTIC SYSTEMS (REVIEW FOR COMPLIANCE): MDH confirms a valid certificate of compliance or valid operating permit for septic systems is on file and approved by the county. They also conduct a visual review of the system during their on-site review.

WATER TESTING (REVIEW FOR COMPLIANCE): MDH confirms that required water testing is done.

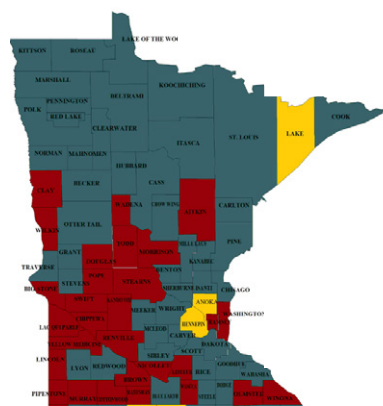
NOTE - MDH LICENSING

CURRENTLY

MDH currently, as best as they can, attempts to locate the physical address and owner of the property to license. If the county provides MDH a list of potential sites, then MDH would follow up to begin the process of licensing.

FUTURE

MDH would be in a stronger position if the county had some level of permitting/licensing requirements for tracking sites and addresses and, if possible, eliminate the loopholes that exist.



PERMITTING & LICENSING

ST. LOUIS COUNTY



INDIVIDUAL ON-SITE SEPTIC SYSTEMS

ENVIRONMENTAL SERVICES

The county Environmental Services Department administers on-site septic system permits and septic enforcement programs. Septic systems are designed based on potential use with the standard being two persons per bedroom. Systems

may be designed for greater use, and water usage monitors can be placed on the system. Environmental Services can also require annual operating permits if conditions and potential usage warrant it.



LAND USE

PLANNING AND COMMUNITY DEVELOPMENT

The county Planning and Community Development Department administers the county zoning ordinance in unincorporated areas of the county. Local town governments may administer zoning, but those standards must be consistent or more restrictive than the county ordinance.

Greenwood township has the most vacation home rentals in a town that administers its own zoning.

Currently, the St. Louis County zoning ordinance does not require a specific permit or license for vacation home rental properties, however, it does require a permit for resorts, B&B's, campgrounds and hotels.

The zoning ordinance could require a permit such as land use permit, performance standard permit, interim use permit, or conditional use permit. Interim use and conditional use permits require a public hearing before the county Planning Commission.

BENEFITS AND DRAWBACKS OF REGULATION

The decision as to whether or not there should be regulations relating to vacation home rental homes and what those regulations may be is a decision for the County Board. The table below lists the benefits and drawbacks of regulation from the various perspectives.

ST. LOUIS COUNTY

Benefits (Reasons) for Regulation

- Consistent Standards
- Improved Environmental Protection
- Improved Sales, Use and Transit Tax Collection
- Improved Lodging Tax Collection
- Location Disclosure and List Creation

Drawbacks of Regulations

- Staffing Cost
- Additional Training and Assistance
- Legal Challenges
- Additional Ordinance Language
- Constant Monitoring
- How to Conduct Enforcement

TOWNSHIPS

Benefits (Reasons) for Regulation

- Fire Code Compliance
- Location Disclosure and List Creation
- County Vacation Home Rental Ordinance can Guide Towns and Cities

Drawbacks of Regulations

- Required to Add to Local Zoning Ordinances
- Staffing Cost
- Additional Training and Assistance
- Legal Challenges
- Additional Ordinance Language
- Constant Monitoring
- How to Conduct Enforcement

NEIGHBORS

Benefits (Reasons) for Regulation

- Provide Opportunity for Input
- Reduce Neighbor Negative Impact
- Accountability

Drawbacks of Regulations

- Increased Tensions and Conflict

OWNERS

Benefits (Reasons) for Regulation

- Established Rules
- Improved Compliance
- Process to Address Unwarranted Complaints

Drawbacks of Regulations

- More Fees
- Possible Permit Revocation
- Site Address is Public
- More Property Management Oversight
- Reduction in VHR Availability
- Site Permit Scope of Use Limited

CONSUMER

Benefits (Reasons) for Regulation

- Minimum Standards in Place
- Potential Decreased Complaints
- Fire Code Compliance
- Safe Drinking Water
- Sewer Compliance
- Other Code Compliance

Drawbacks of Regulations

- Reduction in Vacation Home Rentals
- Increased Rental Cost

WHAT OTHERS ARE DOING

COUNTIES AND CITIES

Vacation home rental is a new land use issue facing communities and the ways in which the issue is addressed varies across the state. Most cities and counties have not addressed this issue, while others have adopted regulations, and yet others, such as the city of Duluth, are examining the effectiveness of the adopted standards. In addition, some cities, such as Burnsville, have banned vacation home rentals in residential zone districts.

PERMITS REQUIRED							
	No Regulation	Standard Permit	Performance Permit	Interim Use Permit	CUP	Not Allowed	Comments
Counties							
Aitkin			X ³				Detailed standards
Carlton				X			Similar to B&B
Cass	X						
Cook		X					Requests MDH regulate
Crow Wing	X						Allowed with standards
Itasca	X						In review
Lake				X ¹			
Koochiching					X		
St. Louis County	X						
Stearns			X ²				Detailed standards
Cities							
City of Duluth				X			Restricted to certain districts
City of Burnsville						X	Amending ordinance
1- Review after one year followed by reviews no more than five years between reviews. The Lake County Planning Commission may impose conditions to limit impact on neighboring land uses and water bodies. 2- Planning Commission Hearing required. 3- Interim Use permit required with initial permit valid for five years.							

ZONING — ADMINISTRATION

The following zoning areas indicated below are administered by St. Louis County. All other areas are locally administered.

 Land Use and Zoning Areas Administered by St. Louis County

TOWNSHIPS

If the county adopts new VHR ordinance language, **townships** doing their zoning administration would have to adopt it as a minimum standard.

LOCAL ZONING ADMINISTRATION

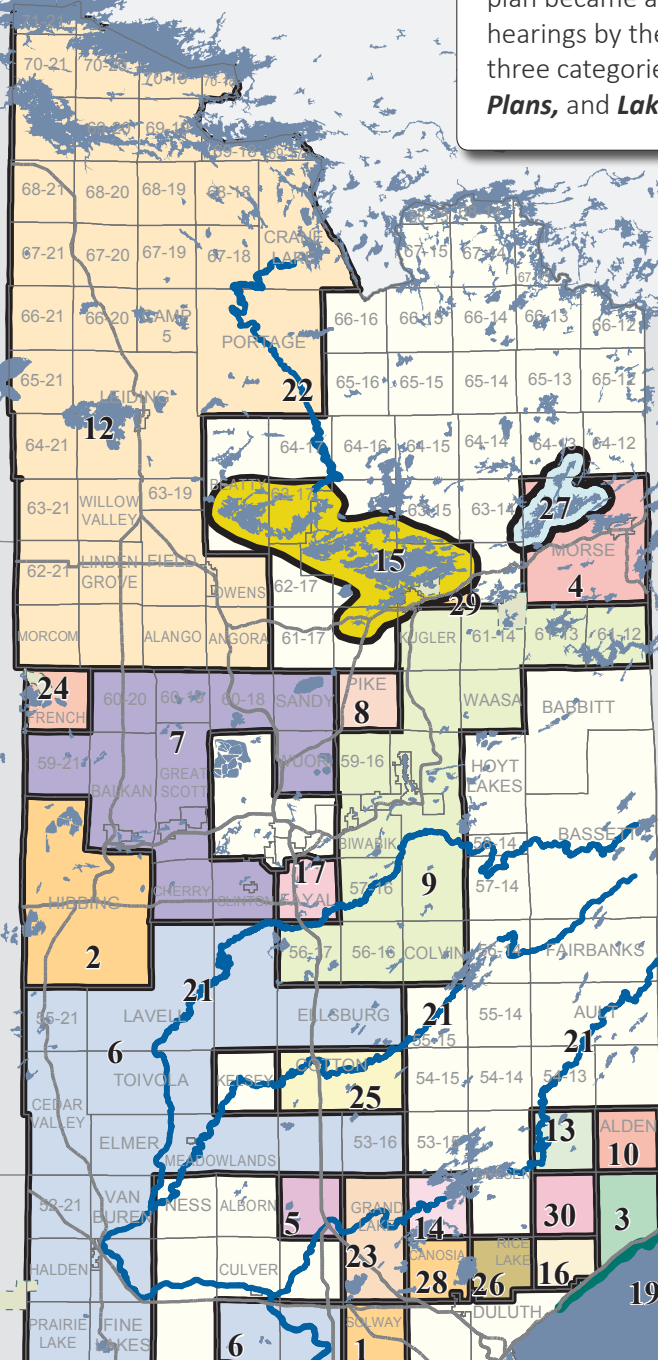
Areas where land use and zoning is administered by local units of government

Cities: Aurora, Babbitt, Biwabik, Brookston, Buhl, Chisholm, Cook, Duluth, Ely, Eveleth, Floodwood, Gilbert, Hermantown, Hibbing, Hoyt Lakes, Iron Junction, Kinney, Leonidas, McKinley, Meadowlands, Mountain Iron, Orr, Proctor, Rice Lake, Tower, Virginia, Winton

Townships: Canosia, Duluth, Gnesen, Greenwood, Lakewood, Midway

CURRENT — LAND USE PLANS

Minnesota Statute requires that county land use plans be adopted by ordinance, and in 1977 the county adopted Ordinance #27, which stated the process of plan development and amendment. Each new plan became a section of Ordinance #27 and was adopted after public hearings by the Planning Commission and the County Board. There are three categories of plans: **Individual Town Plans**, **Multi-Town Regional Plans**, and **Lake-River Plans**.



LAND USE PLANS — EFFECTIVE DATES

- Section 1 — Town of Solway — March 13, 2001
- Section 2 — Town of Stuntz — June 12, 1978 **REPEALED** — 11/1/11
- Section 3 — Town of Duluth — January 29, 1979
- Section 4 — Town of Morse — February 1, 1979
- Section 5 — Town of New Independence — April 1, 1979
- Section 6 — Southwest Planning Area — September 1, 1980
- Section 7 — West Range Planning Area — October 6, 1980
- Section 8 — Town of Pike — September 14, 1981
- Section 9 — East Range Plan — October 26, 1981
- Section 10 — Town of Alden — March 22, 1982
- Section 11 — Town of Midway — April 12, 1982
- Section 12 — Voyageur Planning Area **REPEALED** — July 1, 1982
- Section 13 — Town of North Star — March 14, 1983
- Section 14 — Town of Fredenberg — December 10, 1984
- Section 15 — Lake Vermilion Land Use Plan — July 1, 2009
- Section 16 — Town of Lakewood — October 22, 1985
- Section 17 — Town of Fayal — November 1, 2002
- Section 18 — Houseboat Goals and Policies — May 26, 1987
- Section 19 — North Shore Management Plan — April 24, 1990
- Section 20 — County Water Plan — July 1, 2001 **REPEALED** — 11/1/11
- Section 21 — St. Louis, Cloquet, Whiteface Corridor Management Plan — April 5, 1994
- Section 22 — Vermilion River Plan — August 15, 1995
- Section 23 — Town of Grand Lake — May 9, 2000
- Section 24 — Town of French — May 23, 2000
- Section 25 — Town of Cotton — April 10, 2001
- Section 26 — Town of Rice Lake — December 10, 2001
- Section 27 — Burntside Lake Land Use Plan — September 1, 2001
- Section 28 — Town of Canosia **REPEALED** — March 1, 2003
- Section 29 — Town of Breitung — April 15, 2003
- Section 30 — Town of Normanna — July 1, 2003

ST. LOUIS COUNTY ORDINANCE - PAST ACTIONS

ON VACATION HOME RENTALS

The existing St. Louis County zoning ordinance is silent of the issue of vacation home rentals. The ordinance regulates businesses through a variety of permits ranging in level of review and level of public input. Around 2012, there was a

significant increase in the availability of these rental units due to, in part, properties being listed on internet sites. The listing and booking of vacation home rentals online has completely changed this market.

PAST COUNTY ACTIONS - ON VACATION HOME RENTALS

130 VHR

COUNTY DISCUSSION
County internal discussion.

2004

2008+
E-Commerce Expanded
Mobile Smartphones

2012+
Significant increase in
available VHR

130¹ VHR

2012

COUNTY BOARD WORKSHOP
Discussed and County Board decided
to take no action at that time.

**COUNTY BOARD
WORKSHOP**

2015

270¹ VHR

1- Vacation home rentals advertised online.

PRINT MEDIA

INCREASING INTERNET ADOPTION

COMPLAINTS & COMMENTS - VACATION HOME RENTALS

COMPLAINTS

- **County Department Complaints:** Typically, the Planning and Community Development Department receives about 5-10 complaints per year mainly related to noise and behavior.

COMMENTS

- **Resorts and Hotels:** A concern that has been brought up consistently by resort and hotel owners is that they want a “level playing field” with vacation home rentals related to taxes, state licensing regulations and permitting.

LEVELS OF REGULATION

CHOOSING A REGULATORY APPROACH

A variety of regulatory options are available to the county. Each choice has advantages and disadvantages, and the choice of approach depends upon the permitting objective.

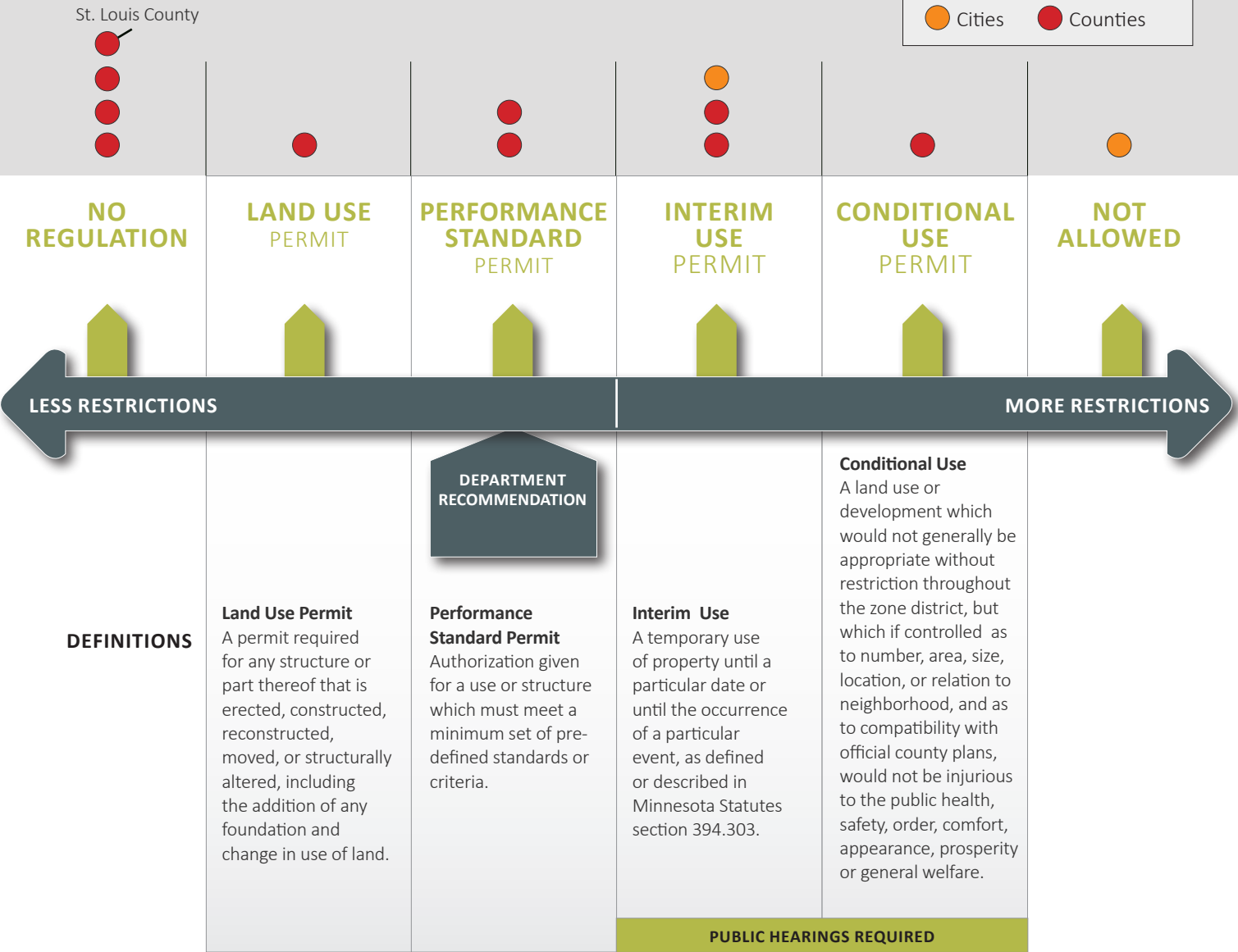
TYPES OF PERMITS - LEVEL OF REGULATION

EACH DOT REPRESENTS A CITY OR COUNTY AND LEVEL OF REGULATION

LOCAL REGULATION LEVEL

Cities

Counties



OVERVIEW

FUTURE DIRECTION AND NEXT STEPS

Vacation home rentals fill an important lodging need for visitors to the county. This study demonstrates issues related to vacation home rentals that could be addressed by the county including: leveling the playing field, taxation, health, environment, safety and neighborhood concerns. The following options could be:

FUTURE DIRECTION - OPTIONS

- 1 NO CHANGE:** ST. LOUIS COUNTY WILL NOT REGULATE VHR
- 2 Coordination:** ST. LOUIS COUNTY WILL NOT REGULATE VHR, BUT ATTEMPT TO INCREASE COORDINATION WITH REGULATORY AGENCIES.
- 3 Planning Commission:** ST. LOUIS COUNTY WILL REGULATE VHR WITH MINIMUM STANDARDS. ISSUE WILL BE REFERRED TO THE PLANNING COMMISSION TO MAKE A RECOMMENDATION TO THE ST. LOUIS COUNTY BOARD.

BOARD VISION - POTENTIAL

The following is a potential vision that the Board could consider if it is determined that additional action is desired in order to provide direction.

BOARD VISION VACATION HOME RENTALS

Encourage and facilitate standards in the lodging industry for the health and safety of citizens and visitors, while recognizing the variety of lodging opportunities in St. Louis County. Seek to promote an equitable and competitive business environment for the lodging industry and be sensitive to potential negative effects on neighborhoods and communities.

FUTURE DIRECTION - DETAILS

1 CONTINUE AS IS

Continue to operate in our current environment where no permit is required to establish a vacation home rental. No changes in ordinances or policies.

2 COORDINATION - REGULATORY AGENCIES

The vacation home rental issue involves the assistance from state, county and local agencies and groups. The county will work with these groups to fully address the issues and ensure vacation home rentals are following existing regulations.

- **Minnesota Department of Revenue:** The county can assist the state with location information to collect applicable state and local tax.
- **Minnesota Department of Health:** The county can assist the state with location information to further establish a strengthened licensing program.
- **St. Louis County Assessors:** County Assessors will further review vacation rental property classification to ensure correct property classification per state statute.
- **St. Louis County Environmental Services (ES):** ES will review sites to ensure compliance with on-site septic system regulations.
- **Local Municipalities and Townships:** The county can assist local jurisdictions with location information to collect applicable local tax and regulation.
- **Local Associations:** The lodging tax is primarily administered at the local level. The county can provide location information to collect lodging tax.

3 PLANNING COMMISSION

Refer topic to the Planning Commission to begin the process of providing direction to St. Louis County Board of Commissioners by:

- **Community Participation:** County staff conducts community participation efforts to obtain feedback.
- **Analysis and Findings:** Conduct an in-depth analysis and present findings to Planning Commission.
- **Developing Standards:** Develop potential standards based on community feedback, analysis and findings.
- **Hold Public Hearings:** Hold public hearings on potential standards.
- **Recommendation to County Board:** Recommend to County Board a potential direction.

