

# Public Hearing on Short Term Rentals in Two Harbors

By: Katee Rose

A public hearing was held for community members the evening of Monday, April 25, 2022 before the Two Harbors City Council meeting. There is a new proposed ordinance concerning the city's capacity and regulations for short term rentals (STR). In May of 2018 the planning commission created an STR ordinance. In this current ordinance there is no cap on the amount of STRs allowed within the city, no occupancy limits, no penalties, and units are permitted in all zones. Since that time, the city went from having 6 to now 56 short term rental properties in the area. This past February a three month moratorium was issued that will last until the 15<sup>th</sup> of May. It is within this three month window that the planning commission worked on making amendments to the ordinance. The purpose of this ordinance amendment is to free up housing for people to become permanent residents in the community. The new ordinance amendment would cap the number of STRs at 40. Those that already have permits will not be affected.

As the vacation rental market itself is growing and changing all the time, so are the laws that keep it in order. An increasing number of cities are cracking down and taking measures to protect neighborhoods, communities, residents and visitors alike. Two Harbors has a population of around 3500 and currently 56 rentals. That is one STR per every 63 people. Duluth currently has one STR per 1063 people. Beaver Bay is in the process of doing a major overhaul on their ordinance, and Duluth township adopted a very strict STR ordinance in April, stating that property owners must homestead the property and live there at least 9 months out of the year.

The ordinance will work towards eliminating short term rentals in residential areas, have occupancy limitations for safety, parking and other important rules and regulations to achieve a balance in the community. There is an increase of fire/life safety through owners having to acquire a MN Department of Health inspection certificate with a city application. Permits would not be transferable, and would follow the owner, not the property. Renewals will need to be received at the city hall by 4:30pm on November 1<sup>st</sup> of each year. Again, this proposed ordinance amendment will NOT affect current STR permits holders as long as the applicants submit a renewal in a timely manner. The application process starts with checking with the city planner to see where the cap is, then receive a state health inspection. To request an inspection, owners can contact the health inspector, John Weidner, at 218-834-8356 or by email at [john.weidner@lake.co.mn.us](mailto:john.weidner@lake.co.mn.us). Inspections have always been required as per state law. Once that is complete, the owner will submit the STR permit application, inspection certificate, and a non refundable application fee to the city. Allowing up to 14 days for the application to be processed, the application will be approved or denied by the city. To apply you will also need to have a site plan and verify parking requirements are met.

Currently, 38 of the 56 STRs are owned by local residents. There are 267 hotel rooms and 146 available camping sites, plus the 56 STRs currently in the town of Two Harbors that can accommodate visitors. Under State Statute 462.357, the city reserves the right to regulate zoning. The inspections are regulated by the MN Department of Health and are not optional. All businesses in the area are subject to these inspections. City codes, including zoning regulations and building codes are in place to protect the health, safety and welfare of the community. The city is simply desiring to manage the short term rentals, not banish them. This amendment to the short term rental ordinance was recommended and approved by the planning commission, which is a citizen appointed commission.

There were several residents of Two Harbors that spoke at the podium and addressed the community and council. Almost all overwhelmingly requested for the new ordinance to be passed, speaking to the importance of having permanent residency in the city, covering many reasons why the influx of short term rentals can threaten their sense of community. If more people are displaced from living in Two Harbors due to lack of housing, that means less registered voters. Which means a softer voice in local state and federal government. Having more visitors than residents will also impact the funding received by the Census. The census is used in determin-



(Photo: NOLO.com)

ing how billions of dollars in federal funds are allocated within the community for hospitals, schools, programs, HRA, fire departments, roads and other critical services. If local folks are unable to find housing, it will negatively impact the local businesses and their ability to find employees to work (this issue is already affecting the area). Two Harbors has an aging population which equals retirements. Dwellings are being exclusively bought above the asking price to be used for short term rentals which removes housing stock that would otherwise be used by new families.

Not having a strong permanent residence presence in the community will also affect the amount of volunteers to work within the community, serving on city boards and commissions, as well as running for public office, and a decline in school enrollments.

A representative of North Shore Horizons that works as a housing coordinator spoke at the hearing. Last year North Shore Horizons worked with over 400 individuals and families that were in search of housing. Domestic violence is the number one reason to homelessness for women and families nationwide. The intersection of domestic violence, homelessness, and housing insecurity is undeniable. Lack of safe and affordable housing is the number one hurdle for survivors of both domestic violence and sexual assault. Long term housing is essential. 84 percent of survivors report that they need help finding affordable housing. The New Beginnings Program at North Shore Horizons can house up to 6 families of multiple sized units and currently has a wait list of over 20 families, 15 of those families being from Two Harbors and the Lake County area.

“When I start talking to families about housing I have less than a handful of options. All housing buildings in Two Harbors have wait lists of their own,” says the housing coordinator. She also expressed that Duluth has become the last resort and most frequent option for these families to find housing. This means a change in schools and a change in work as they can no longer afford to work in Two Harbors and live in Duluth. It means a loss of a support system, of families and friends, due to limited public transportation. When a family is forced to leave Two Harbors based on a lack of housing, it has consequences that reverberate throughout the whole community. A lack of housing translates to lack of school enrollment, lack of business owners, lack of employees to work. “Folks that live in this town are being priced out of living in this town.” We know that short term rentals inflate housing cost, it's been studied and proven time and time again. HUD (Housing Urban Development) is a government agency that creates a fair market rental rate. This rate is released for the county each year and uses a specific formula that provides rental assistance guidelines for those that use assistance programs. The housing coordinator at North Shore Horizons says that the fair market rate is listed at around \$680 for a one bedroom apartment, although when helping clients trying to find housing, all that is available is way beyond that price and therefore are inaccessible to folks. “Not a single apartment was close to that fair market rent... I encourage the city council to act quickly on this ordinance.”

Another resident spoke up and expressed her desire to stay living in a residential neighborhood. “If we had the same ratio of population to permits as Duluth, Two Harbors would only have 3 short term rentals available... So 40 as a cap is a pretty generous cap.” The increase in

short term rentals has affected homeowners in the area with tax evaluations going up. People that come in that have more money than the people in the area are offering over the asking price for properties to buy and turn into short term rentals. Some may be vacation homes, but most are short term rental businesses.

Residents say they are not only receiving increased taxes, but also homestead exclusions. “I think the cap is reasonable, your pricing the people that live in Two Harbors right out of their homes, you need to consider that for having a community. I encourage you to put this in place because if this moratorium ends, they are going to be everywhere.”

Two Harbors is a community and neighborhoods are important. The home share platform has been growing rapidly since 2008, making over a 30 billion dollar profit every year (2017) in the industry. “For the backers of short term rentals there is much to gain, for residents of Two Harbors there is much to lose,” comments one resident. In Duluth there is one STR for every 1063 people, and one STR for every 64 people in Two Harbors. If these numbers are not adjusted properly there will be a devastating effect on Two Harbors. “Evaluations keep going up, taxes keep going up, insurance rates keep going up. This ordinance addresses a method for those adjustments. If not regulated, this industry can do great damage to the community. The average wage earning family can not compete when prices are driven so high they can not afford to live there. “We lose families, we lose neighborhoods, we will lose our community. There are times when restrictions and rules are necessary. This council has an ordinance before it that takes the initial steps in creating a balanced atmosphere for short term rentals in neighborhoods. I would like to urge the members to vote in favor of the ordinance.”

Another community member stated, “This town has lost 110 people in the last 2 years that had no place to live. There are 56 short term rentals and 50 of them would have housed those people we lost... We cannot regain the population that we lost because of the short term rentals... There are thriving businesses in this town that cannot get the employees that they need because there is no place for those employees to live, we need this cap”. Several residents request the council to look at starter homes and apartments in the area and warn the town will lose more residents if this is not addressed. “If the community doesn't step up and help solve this issue, we will continue to have this problem,” was one public comment. Council was also asked to prioritize local resident owners over big companies or outside owners operating STRs in the community.

The lack of affordable housing has been an issue that the entire nation is currently facing. Mayor Swanson shared his criticisms about the proposed amendment. Another council member mentioned an interest in digging into new developments for housing as much as they have dug into the short term rental issue. Although it was discussed that given the topography of the area, it has been discovered that it will be difficult to erect new builds of city blocks within the city. There has been months of discussion and process concerning the amendment. There is still an option to edit the requirements or to make changes, which will be addressed at the next city council meeting. There were concerns about the process being rushed because there was only 3 months given with the 3 month moratorium to explore an amendment. The first reading of the ordinance amendment was passed.