



City of Spearfish
City Council Study Session Minutes
September 27, 2023, 4:15 p.m.

The City Council Study Session was called to order by Mayor Senden at 4:15 p.m. in the Council Chambers of City Hall on Wednesday, September 27, 2023. The following council members were present: Clark, Hodgs, Hourigan, Jacobs, Klarenbeek and Rath. Absent: none. City staff present were: City Administrator McFarland, City Attorney McDonald, Public Safety Director Rotert, Finance Officer DeNeui, Public Works Director Broyles, City Planner Kapsa, Parks and Recreation Director Ehnes, Human Resource Direct Mathis, Assistant City Planner Ecker, Assistant Chief of Police Dean, and Assistant Public Works Director McMahan.

Hourigan moved, Hodgs seconded, and all voted to approve the agenda as presented.

Items for Council Discussion:

Covenants of Sky Ridge Subdivision, Phase 2 – City Planner Kapsa reviewed the purpose and intent of the workforce housing development, Sky Ridge. The project began discussions in 2019 when the median price of homes selling was around \$215,000. In August 2023, Spearfish home prices were up, selling for a median price of \$469,000. The 2022 housing study needs assessment determined that 603-656 affordable home ownership units will be needed by 2030. The City has invested over \$8 million in land acquisition, grading, utilities and street infrastructure in the Sky Ridge development. The existing covenants for Sky Ridge restrict homes to be occupied by the homeowner, cannot be rented, if sold the excess resale price over original purchase price must be remitted to the City, and the homeowner cannot file additional encumbrances or use the property to secure additional financing. These limitations preserve affordability for a term of 2 years. Staff recommends extending the affordability restrictions to 10 years, 20 years (as is used by HOME Investment Partnerships Programs by US Housing and Urban Development (HUD) funding requirements), or 30 years (as used by Low-Income Housing Tax Credit program through HUD). The proposed covenants would allow phase 2 homes the ability to recapture a defined appreciation credit plus any capital improvements made to the homes in the maximum resale price. Following discussions, the council directed staff to move forward with an affordability preservation of 20 years. A final covenant draft will be presented at a future council date.

Short Term Rental Regulation – City Planner Kapsa and Assistant City Planner Ecker presented information on Short Term Rentals (STR). Research found that in May 2022 there were 108 STRs in Spearfish and as of September 2023 there are 353, most common being single-family homes. Potential benefits of STRs are property owners can earn supplemental income, there is an increased home value for existing property owners, STRs offer a local experience for visitors, and the City receives Hospitality Tax revenues from STRs (if the owner/rental company remits the proper taxes). Potential cons to STRs are a decrease in availability of long-term rentals, increases in real estate costs, externalities affecting neighbors (noise, stress on infrastructure, parking, social cohesion), direct competition with hotel industry, lost revenue from Hospitality Tax going uncollected, and decrease in revenue from Hotel Business Improvement District (HBID) occupancy fees not applicable to STRs. Reduction in Hospitality Tax and HBID revenues impact funding to some non-profit organizations in

Spearfish. Kapsa and Ecker also noted studies that showed presence of STRs in areas increased rents and increased housing prices. Additionally, another study found in areas where STRs have been restricted through zoning, real estate prices are lower relative to areas with no restrictions. Existing regulations in other communities of Lead, Minnehaha County, and Custer South Dakota as well as Jackson Wyoming were presented. Staff outlined possible approaches to regulation of STRs and recommend a task force be appointed to study the issue further, gather community input, and draft policy goals and potential regulations. Comments were then received from the public. Rachel Haddley, resident, questioned what problem was trying to be solved with this task force and stated that we need to be clear on the problem. Charlie Nielson, resident, spoke on parking issues and property maintenance issues with a STR in his neighborhood. Don Abrahamson, resident, spoke on parking issues, issues with not knowing the occupants of the STR, inability to use his patio because of the STR and requested changes be made in Spearfish. Nathan Hoogshagen, resident and owner of two and manager of 10 STR properties in Spearfish, noted that VRBO does not collect the Hospitality Tax on his properties which should be looked into by City staff. He also suggested that a Business Improvement District be created to collect a \$2.00 per night occupancy fee from all STRs to assist with funding of non-profits. Hoogshagen also noted that the market is getting saturated and owners of STRs are adjusting prices so the market may take care of the number of STRs on its own. Tia Berens, a resident, spoke about the difficulty of workers to find rental housing in Spearfish and noted that some of her staff have purchased homes in Belle Fourche because they can't afford the prices of homes here. Jared Capp (Cappy), resident and owner of several STRs, noted that he has no opposition to regulation. He pays his applicable taxes and wouldn't be in opposition to a BID fee either. He finds that he is very motivated to maintain his properties to keep his ratings on booking sites. Because of the number of visitors to the Black Hills, STRs are needed because we don't have enough hotel rooms to accommodate the demand. Additionally, STRs have been in Spearfish for centuries, mostly due to the Black Hills Passion Play. Cappy also noted that he used to have long-term rentals but won't anymore as they don't maintain the property. With STRs he maintains and inspects the property frequently and short-term renters are usually better as they too are looking for good ratings on the booking sites. Tim Bjorneberg, resident, and President of Top Shelf Homeowners Association (HOA) noted their association permits STRs but limit the length of rental. These limitations make it difficult to manage and track the renters. He suggests a conditional use process be established for STRs. Joe Jorgensen, resident, noted that his small house development near Michigan St. and Canyon St. permits STRs but other HOAs in Spearfish don't. It would be difficult for the City to regulate STRs because of these established HOAs. He suggested that any regulation still permit all residents to rent their homes for the Sturgis Motorcycle Rally time as that has been going on for years as well. Kapsa and Ecker will collect names of interested people for the task force and noted they would like a diverse representation from stakeholders such as homeowners, STR owners, students from BHSU, business owners and other stakeholders. Additional information will be presented at a future date.

City Council Agenda:

Draft Agenda – The draft agenda for October 2, 2023, City Council Regular Session was previewed.

The public comment period was opened at 5:35 p.m. and closed with no additional comments being received.

Executive Session – Hourigan moved, Jacobs seconded, and all voted to enter Executive Session pursuant to SDCL 1-25-2(6) for the purpose of discussing information pertaining to the protection of public or private property and any person on or within public or private property.

Council returned to the Study Session at 6:02 p.m.

No additional discussions were held and with a motion from Hodgs, and second from Hourigan, the meeting was adjourned at 6:03 p.m.

