



September 23, 2025

Honorable Marie Hernandez, Presiding Judge
Superior Court of California, County of Orange
700 Civic Center Drive West
Santa Ana, CA 92701

Re: Response to 2024-25 Orange County Grand Jury Report “Long-Term Solutions to Short-Term Rentals”

Dear Judge Hernandez,

The City of Laguna Beach has reviewed the Orange County Grand Jury Report titled “Long-Term Solutions to Short-Term Lodging.” In accordance with California Penal Code §933.05(a) and (b), the City of Laguna Beach submits the following responses to the findings and recommendations included within the report.

Findings:

F1: Despite the increasing media coverage of Online Booking Agencies (OBAs), STRs are not a new phenomenon in Orange County.

Response: The City of Laguna Beach agrees with the finding. STRs have long existed and Laguna Beach has had regulations in place since 1999.

F2: The steady growth of STR usage in the last decade raises concerns of potential public nuisance.

Response: The City of Laguna Beach agrees with the finding. The City has strengthened its regulatory framework through recent Municipal Code updates, including the proposed addition of Chapter 5.84, which establishes a comprehensive compliance system. This framework includes nuisance response plans, proactive monitoring, technology integration, and coordinated enforcement efforts among Community Development, Code Enforcement, and the Police Department to minimize potential nuisances.

F5: Proactive home inspections of new and renewing STRs, which have been implemented in some Orange County cities, improve code enforcement and STR compliance with city ordinances.

Response: The City of Laguna Beach agrees with the finding. Inspections are required under Laguna Beach’s permitting process, and the new licensing ordinance will enhance this

further.

F6: Direct remittance of taxes by OBAs does not capture all TOT for an STR because of direct booking practices.

Response: The City of Laguna Beach agrees with the finding. The new ordinance includes enhanced reporting and audit provisions to help address gaps in TOT collection.

F7: Some cities in Orange County have outdated systems for tracking short-term rental TOT making the process less effective and more difficult for staff.

Response: The City of Laguna Beach agrees with the finding. The City recognizes the need to improve financial oversight and has adopted a new ordinance (proposed Chapter 5.84) that requires short-term lodging unit operators to obtain a Short-Term Lodging Unit Certificate. This certificate enhances the City's ability to track rental activity, verify compliance with Transient Occupancy Tax (TOT) and Tourism Marketing District (TMD) assessments, and enforce reporting obligations more effectively. System improvements are planned as part of the licensing implementation.

F8: In some cases, STRs are improperly recharacterized as long-term rentals to circumvent the collection of TOT and any applicable penalties.

Response: The City of Laguna Beach agrees with the finding. To improve compliance, the City has partnered with Granicus Host Compliance, a third-party monitoring service that tracks online short-term rental listings in real time. The system captures listing metadata, screenshots, and advertisement changes over time, helping to identify rentals that are misrepresented as long-term stays but are operated as short-term rentals. This evidence enables Code Enforcement to take appropriate enforcement actions under the City's Municipal Code.

F9: Online Booking Agencies in foreign languages are outside the current capabilities of Code Enforcement to monitor and track unpermitted STRs.

Response: The City of Laguna Beach agrees with the finding. Monitoring foreign-language listings presents challenges; however, the City's partnership with Granicus Host Compliance enhances multilingual monitoring across major STR platforms. Staff continues to explore additional tools to support enforcement.

F10: Cities that fail to routinely review their STR waiting lists potentially lose TOT revenue and contribute to a greater prevalence of unpermitted STRs.

Response: The City of Laguna Beach agrees with the finding. Under the new Short-Term Lodging ordinance (Chapter 5.84), licenses for short-term lodging units do not renew automatically, and revoked licenses carry a minimum three-year waiting period before reapplication. These provisions help ensure that only active, compliant operators maintain

licensing privileges, thereby helping reduce potential revenue loss associated with inactive or underused licenses.

F11: Locations that have hosted major events have reported an outsized increase in demand and pricing of STRs, a situation Orange County is likely to experience with the upcoming 2026 Los Angeles World Cup and 2028 Los Angeles Olympics.

Response: The City of Laguna Beach agrees with the finding.

F12: City leaders have no regular communication with each other concerning STR issues, limiting opportunities to develop strategies and expertise to improve service.

Response: The City of Laguna Beach partially agrees with the finding. While there is no formal regional STR coordination body, City staff regularly engages with counterparts in neighboring jurisdictions to share best practices, enforcement strategies, and policy updates. The City supports increased collaboration and is open to participating in broader regional efforts to address STR issues.

Recommendations:

R1. Cities should review and begin to update ordinances to keep up with the rapidly changing nature of court findings and legislation related to STRs, by December 31, 2025, and no less frequently than every three years thereafter. (F4, F12)

Response: This recommendation has been implemented. The City has adopted a comprehensive Short-Term Lodging Ordinance (Chapter 5.84) that updates and supplements prior regulations. The ordinance strengthens enforcement, improves transparency, and modernizes the City's oversight of STR operations.

R2: Cities should consider developing a plan for upcoming major events that are expected to create a surge in demand for STRs and its associated Transient Occupancy Tax, by December 31, 2025, and no less frequently than every two years thereafter. (F11)

Response: This recommendation will be evaluated. The City is aware of potential regional impacts from upcoming international events and will consider incorporating additional STR monitoring and enforcement planning into broader event-related readiness efforts.

R3: Cities that allow STRs should evaluate the benefit of ordinances facilitating Voluntary Collection Agreements requiring OBAs to submit TOT directly, by June 30, 2026. (F4, F12)

Response: This recommendation will be evaluated. The City currently requires all STR operators to register for and remit Transient Occupancy Tax (TOT) directly. The City will assess whether entering into Voluntary Collection Agreements with online booking agents (OBAs) could improve compliance and administrative efficiency, while ensuring continued transparency and

enforcement capability.

R4: Cities that allow STRs should evaluate the benefit of collecting TOT on a monthly basis by individual property, by June 30, 2026. (F7, F8)

Response: This recommendation will be evaluated. The City will assess the feasibility of implementing monthly TOT collection on a property-specific basis. This evaluation will consider the need for software enhancements, integration with the new licensing system under Chapter 5.84, potential amendments to the Municipal Code, and the allocation of additional staff or resources.

R5: Cities should require STRs to include the number of days rented per month per permit to facilitate short-term rental TOT desk audits by November 30, 2025. (F7, F8)

Response: This recommendation will be evaluated.

R6: Cities with a permit waiting list should implement strategies to remove non-revenue-generating licenses to allow for fair access by December 31, 2025, and annually thereafter. (F7, F10)

*Response: This recommendation will be evaluated. Under Chapter 5.84, the City has authority to not renew or revoke active licenses for operators who fail to comply with licensing and operational requirements. Also, revoked licenses carry a minimum waiting period of three years before reapplication. The City does **not yet** have a specific mechanism in the code to remove “inactive” or non-revenue-generating licensees from a waiting list solely on the basis of inactivity, but staff will evaluate whether such a provision should be added to improve fairness and revenue oversight.*

R7: Cities that allow STRs should consider allocating resources to update their short-term rental TOT tracking systems by September 30, 2026. (F7, F8, F10)

Response: The recommendation will be evaluated.

R8: Cities that allow STRs should consider random multi-year audits to confirm TOT by June 30, 2026, and annually thereafter. (F6, F7, F8)

Response: This recommendation has been implemented. The City currently conducts annual audits of a sample of short-term lodging operators, typically five per year, to verify compliance with Municipal Code requirements and proper remittance of Transient Occupancy Tax (TOT). These audits are selected randomly and serve to ensure ongoing compliance and fiscal accountability.

R9: City leaders should have regular discussions with each other to share STR management strategies on a biannual basis commencing no later than January 1, 2026. (F12)

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Response: This recommendation will be evaluated. The City conducts annual audits of STR operators for TOT compliance and will consider expanding the audit scope as resources allow.

Respectfully,

Alex Rounaghi
Alex Rounaghi (Sep 24, 2025 10:42:28 PDT)

Alex Rounaghi
Mayor
City of Laguna Beach

cc: Orange County Grand Jury
700 Civic Center West
Santa Ana, CA 92701

9.23.25 - Grand Jury Response - Short Term Lodging

Final Audit Report

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