

March 6, 2026

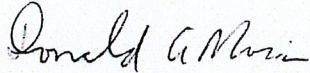
TO: Hon. Paul M. Rodrigues, President and Town Council Members

FROM: Tax Exploration Committee


RE: Unintended Consequences from the Current Tax Ordinance

Per the request of the Town Council at the December 15, 2025 meeting, the Tax Exploration Committee has investigated the concern raised by the Council whereby some Middletown residents are paying the non-resident tax rate due to their grandfathered Short Term Rental registration. The Committee would like to present our findings and recommendation regarding the removal of section 34.70(A)(1)(f) from the Tax Classification System ordinance. We are available to present at your next meeting on March 16th. Our presentation is attached. Thank you.

Warm Regards,



Don Morin, Chair
Tax Exploration Committee



Short Term Rental Ownership and Impact on Resident Tax Rate

Tax Exploration Committee Update to Town Council

March 16, 2026

Committee Members

- Don Morin, Chair
- Jeff Lemler, Vice-Chair
- Lawrence Frank
- Antone Viveiros
- Walt Wildemann
- Marc Thayer (appointed on Feb 16, 2026)
- Town Council Liaison – Dennis Turano

Reminder: Town Council Request

- Investigate Town Council's concern where a resident, i.e., someone living in Middletown at least six months per year, is paying the non-resident tax rate.
- Make a recommendation to the Town Council based on the findings.

Current Situation

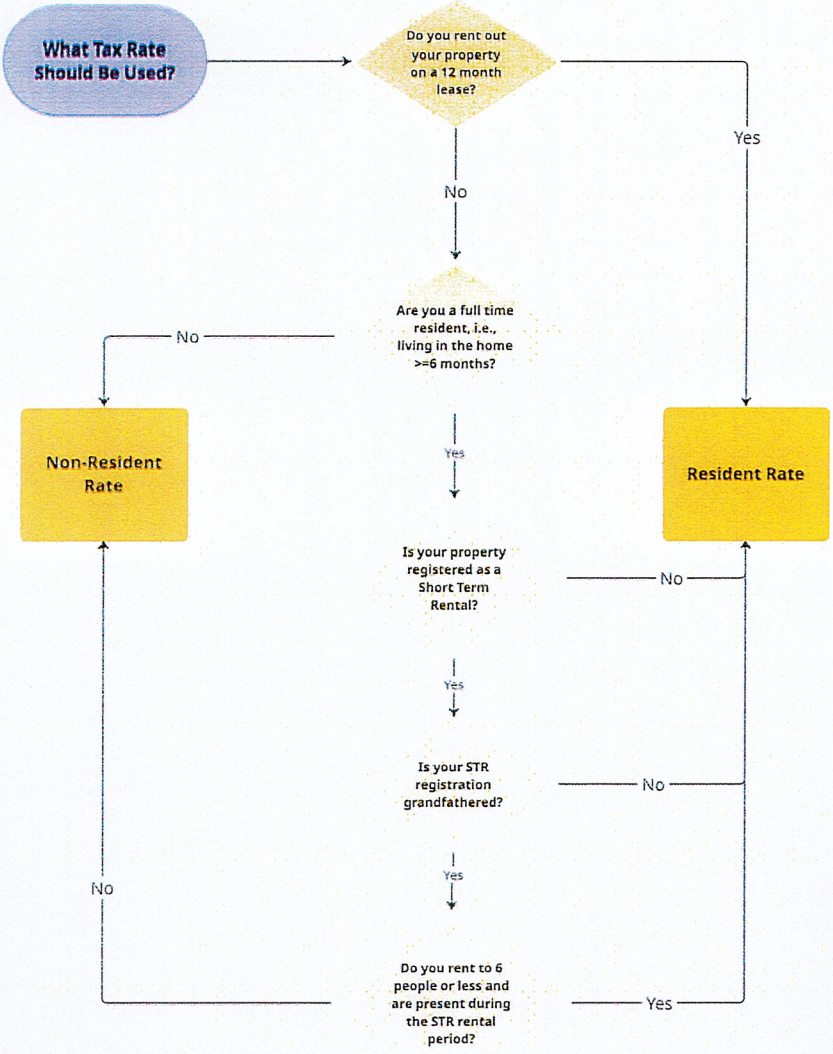
- Per Middletown ordinance Title III Administration, Chapter 34 Taxes, Section 34.70 Tax Classification System, some residents are paying the non-resident tax rate because their property is registered as a non-conforming, grandfathered short-term rental.
- Town Council asked the Tax Exploration Committee to determine if this section should be removed from the current ordinance.

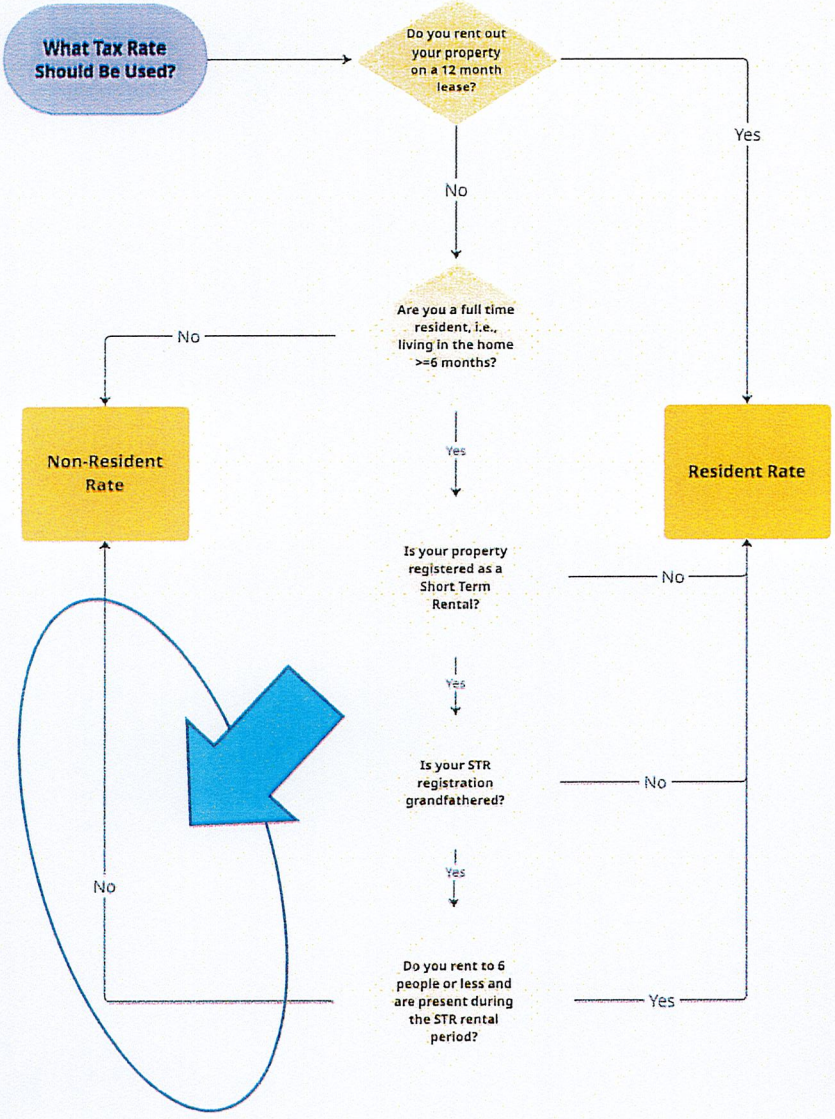
Current Tax Classification Ordinance

- Section 34.70(A)(1)(f): Any property containing a dwelling unit used or registered as a short-term rental, as that term is defined in Chapter 152, Appendix A, § 400 of the Town Code, for any period of time during the tax year for which the owner-occupied rate is claimed, shall not qualify for said rate; provided however, that the rental of one or more bedrooms to no more than six persons in an owner-occupied dwelling unit while the owner is present, with said dwelling unit being also the principal residence of the owner of said dwelling unit, shall be exempt from the provisions of this division (f).

How Did We Get Here?

- March 2022: Tiered Residential Tax Program (TRTP) was established
- FY23 & FY24: non-resident tax rate set to 1.075 x resident rate
- FY25 & FY26: non-resident tax rate set to 1.30 x resident rate
- October 2024: Short Term Rental zoning ordinance was changed to add the owner-occupied requirement and restrict the number of persons allowed
- March 2025: Tax ordinance was modified
 - Landlords showing a 12-month lease would qualify for the resident rate
 - STR verbiage was added: resident rate was restricted to owner-occupied STRs with two bedrooms or less with no more than two persons per room
- November 2025: Tax ordinance verbiage was revised to one or more bedrooms to no more than six persons in an owner-occupied dwelling





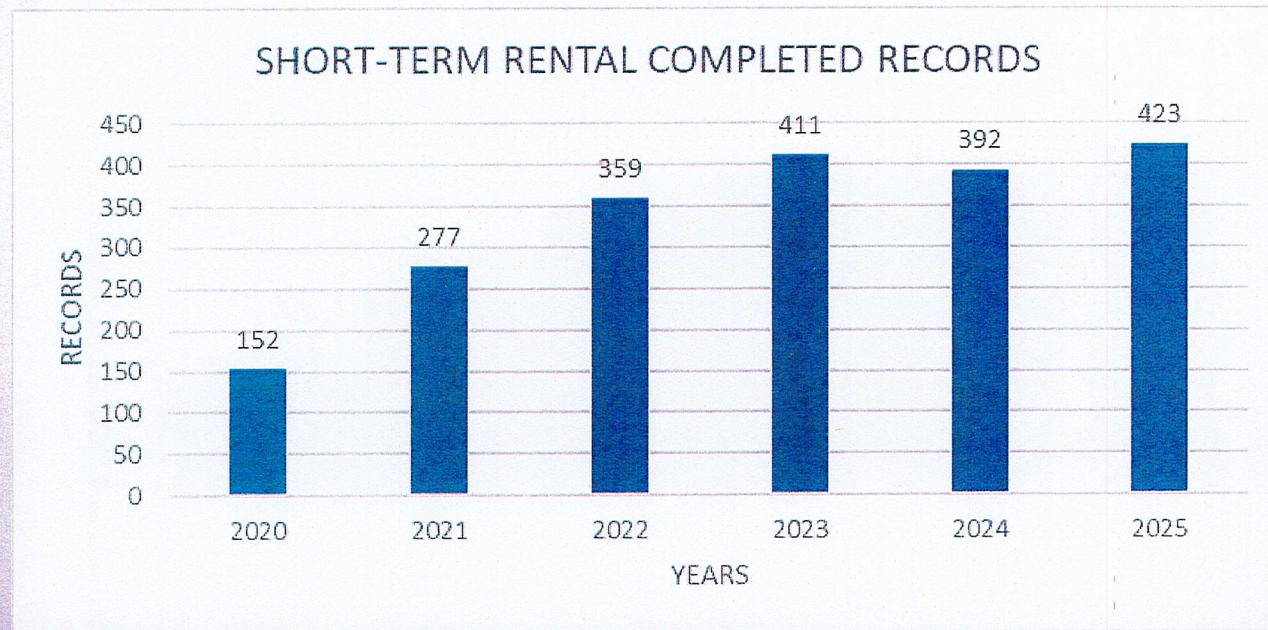
Registered STRs – by the numbers

- **DISCLAIMER:** All numbers are estimates as they come from multiple sources:
 - Town e-permitting system (open.gov public portal)
 - Manual tracking data from zoning office
 - Manual tracking data from tax assessor

Registered STRs – by the numbers

- Annual registration runs December 1st through November 30th
- Data below is for 12/1/2024 through 11/30/2025
 - Total number of registered STRs: 423
 - Quantity grandfathered units (registered before 10/21/2024): 418
 - Quantity registered post ordinance change of 10/21/2024: 5
 - Quantity registered between 7/8/2024 and 10/21/2024: 17 (3 owner occupied)

Registration Trend Data (open.gov)



Registered STRs – by the numbers

- Of 418 grandfathered units, 246 are owned by a Middletown resident
 - Quantity owner occupied: 85
 - Quantity not owner occupied: 161
- Quantity registered to a Middletown resident at a different Middletown address than the STR, i.e., second homes: 41

Tax Assessor Data

- Per the TRTP ordinance, Middletown residents need to re-apply for the resident rate every three years; this took place in 2022 and 2025.
- March 2025: Tax Assessor identified ~70 homes that did not meet the requirement for the residential tax rate per the ordinance change.
- In July 2025, denial letters were sent to ~38 homeowners who had requested the residential rate for fiscal year 2026.
- Of these, ~16 appealed the denial and were granted the resident rate by the tax assessor.
- RESULT: ~54 (70-16) residents are being denied the resident rate in FY26.

Impact of Removing the STR Tax Code Verbiage

- What impact will removing section 34.70(A)(1)(f) have on tax collections?
 - All owner-occupied grandfathered STRs will get the resident tax rate.
 - The ~54 homeowners with non-owner-occupied grandfathered STRs currently pay an additional ~\$150K in taxes.
- IMPACT: ~\$150K in taxes would shift from the ~54 impacted Middletown residents to all property owners, resulting in an average tax bill increase of ~\$20-\$25 for all property owners across the town.
- RISK: Grandfathered STR status remains with the property should a Middletown homeowner choose to sell their property.

Ordinance Intent and Consequences

- What was the original intent of adding the 12-month lease and STR verbiage to the tax ordinance in March 2025? What issue(s) were being addressed?
 - The Council was concerned about the rising values of homes and the tax burden on Middletown homeowners as Middletown became attractive for second homes.
 - The goal was to discourage STRs and encourage more long-term rentals.
 - The tax ordinance was changed to align with the STR zoning ordinance and discourage residents from retaining their grandfathered STR registration.
- What happened?
 - Middletown residents with grandfathered, non-conforming STRs were charged the non-resident tax rate.
 - These homes were already occupied by full-time Middletown residents and were not going to be made available for long-term leases.

Categories of Impacted Homeowners

- Full-time residents who rent out their primary residence as an STR each year but do not remain in their homes during the rental period (non-owner occupied).
- Full-time residents who rent out their primary residence as an owner occupied STR but don't conform to the less than six-person regulation.

Question for Town Council

- What is more important to the Town Council, compliance with the current STR zoning ordinance (owner occupied, ≤ 6 people) or granting the resident tax rate to legal full-time residents regardless of their STR registration status?
- If the Council is bothered by Middletown residents being charged the non-resident tax rate...

Recommendation

- Remove section 34.70(A)(1)(f) from the Tax Classification Ordinance.
- Allow full-time Middletown residents to utilize their grandfathered, non-conforming STR registration and still qualify for the resident tax rate.
- Rationale:
 - This allows full-time Middletown homeowners to supplement their living expenses by renting out their primary homes for a limited amount of time each year.
 - These homes are already occupied by full time residents, making them unavailable for additional long-term leases.
 - STRs registered to Middletown residents have a low incidence of complaints.
- Result: All Middletown residents (>6 months) will pay the resident rate, regardless of STR status.

One Additional Consideration

- What about rentals with leases of > 6 months, e.g., 10-month leases?
- Does the Council want to encourage more of these?
- Some of these types of rentals are for families that are here September through June and send their children to our schools.
- Perhaps this is something for the Town Council to consider in the future.

Acknowledgements

- Thank you to Steve Kapalka for providing STR data and analysis to help describe the current situation.
- Thank you to George Durgin for providing information about the process used to deny the resident rate due to grandfathered STRs and the data regarding the denials, appeals and relief.



Questions?

Complaints to Zoning Officials

- During 2025 the Zoning Enforcement Officers received 62 complaints.
- Complaints received: non-resident (32) and resident (30) homeowners.
 - ~60% of grandfathered STRs are owned by Middletown residents
- Most of the complaints were for parking (17), trash (13), and landscaping (8).
- Complaints were from 28 properties (many repeat offenders).
- Highest repeat offender had 12 complaints lodged; three properties had 4-6 complaints each. Only one of these was owned by a Middletown resident.
- Zero complaints were received on owner occupied STRs.

Sample Denial Letter

- Dear xxx
- Your property located at ### Avenue is registered as a Short-Term Rental under Section 400 of Chapter 152 of the Town Code. Based on information that you provided when you registered for the Short-Term Rental permit, your property does not qualify for the Resident Tax Rate Program under Section 34.70 of the Town's Code of Ordinances.
- Reasons can be:
 - Applicant will not reside at property during rental period
 - Single-family dwelling; more than two registered bedrooms (ordinance recently revised)
 - 2-5 family dwelling registered as a short-term rental

NOTE: Letters went out prior to ordinance update in November 2025

TRTP and STR Decision Letter

- Dear **,
- I have completed my review of your tax appeal for your property located at ##. It is my opinion that your property should have been taxed using the Resident tax rate for the 2025 TaxYear. Pending Middletown Town Council approval, this will reduce your 2025 tax from \$xx to \$yy.
- However, in March 2025 the Middletown Town Council changed the eligibility requirements for tax-payers to receive the Resident tax rate; particularly those tax-payers that have registered their property as a Short-Term Rental. The following changes to the ordinance were made:
- According to the town code 34.70(1)(c)7.(f):
 1. Any property containing a dwelling unit used or registered as a short-term rental, as that term is defined in Section 400 of Chapter 152 of the Town Code, for any period of time during tax year for which the owner-occupied rate is claimed, shall not qualify for said rate;
 2. provided however, that the rental of one or more bedrooms to no more than six persons in an owner-occupied dwelling unit while the owner is present, with said dwelling unit being also the principal residence of the owner of said dwelling unit, shall be exempt from the provisions of this division (f).
- It is also my opinion that any property that does not satisfy the requirements of town code 34.70(1)(c)7.(f) will be taxed at the Non-resident rate for TaxYear 2026.