

RENTALS

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globe to Santa Cruz County's charms.

When the county began serious debate on the controversial law in June of last year, about 120 vacation rentals were registered with the county, paying the county's 10 percent tax on short-term rentals. That number is now up to more than 230 — and it's expected to climb higher. Even by conservative estimates, that should at least double the \$1 million in tax revenues that comes from rentals of homes, in-law units or studios.

OFF THE BOOKS

What is startling some people is the sheer number of previously nonpermitted rentals coming in. The law appears to have unearthed an underground economy more extensive than anyone anticipated.

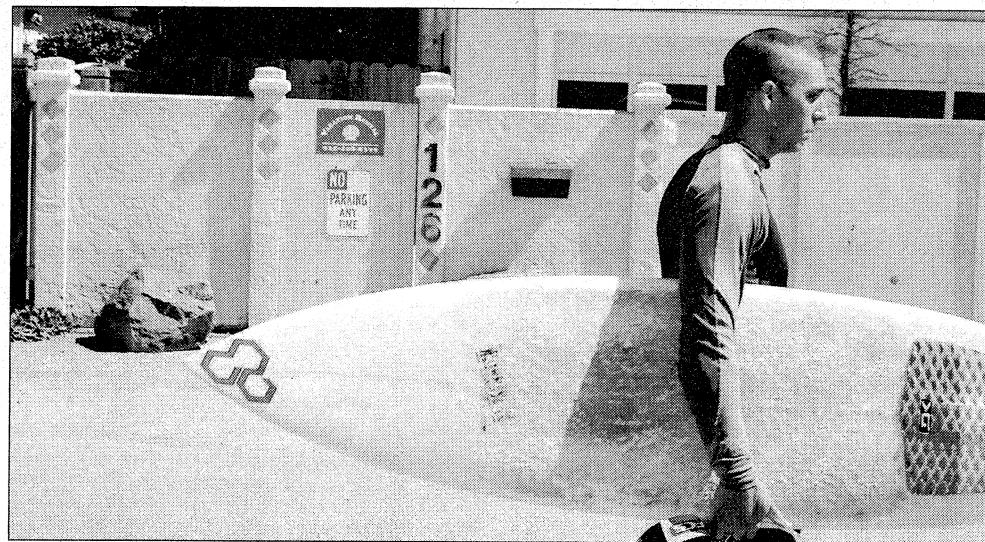
"Quite frankly, I think it proves Supervisor Leopold's point that there are some people out there in the neighborhoods not playing by the rules," county Treasurer-Tax Collector Fred Keeley said.

But the rental explosion is welcome in the county, which for several years has had to make cuts to balance its books. Leopold said the added money means more funding for vital services, such as sheriff's deputies and road work.

"That's a good thing. And it happened all without any new development, no new traffic, and no change for the people that were in operation. For me, that's a win for the community," Leopold said.

To put the flood into sharper focus, consider this. There are just seven vacation rentals still operating with licenses that date to the 1990s. On a single day earlier this year — April 1 — eight owners sought tax certificates allowing them to legally run a rental business.

Those owners met a deadline for having their businesses approved by the county regardless of new rental limits set by the county, and were



A surfer walks to the 26th Avenue beach access stairs past a vacation rental home in Live Oak, where such summer rentals are abundant.

LARISSA MUELLER/SENTINEL FILE

part of the unprecedented jump in the overall numbers.

RENTALS ALREADY MAXING OUT?

Vacation rentals operate throughout the county, from the mountains to beach areas. They are popular destinations for families, college reunions, special events and sometimes groups of friends looking for a lost weekend. High-end rentals can go for more than \$5,000 a week during peak summer months.

But their numbers already may be reaching limits set under the law.

While the ordinance covers all unincorporated areas in the county, it includes special rules for Live Oak, the county's most popular destination. Within an area lying between the harbor and 41st Avenue, and south of Portola Drive, no more than 15 percent of the homes, or 20 percent on any one block, may be short-term rentals.

It is those limits that are fueling the rush. Anyone not in operation prior to April 5 is ineligible to be grandfathered in, and even those who were must obtain a permit by Nov. 28. If they don't, long-standing businesses without a permit may have to close if block limits have been reached.

While the ordinance was being weighed, county planners calculated that a few blocks already would be

blacked out for future vacation rentals, seemingly leaving plenty of room for new businesses.

But the onslaught of new rental registration appears to mean that at least 18 blocks already are barred from hosting future rentals, based on the Sentinel's analysis. The most impacted areas are the harbor, Blacks Beach and Pleasure Point areas.

However, the county is still deciding how to define "blocks," which could affect the final number. And there is still room for new rentals in other areas, especially in parts of Live Oak that sit back from the ocean.

NEW APPLICANTS MUM

Numerous new applicants did not respond to requests seeking comment. They include real estate professionals, local small business owners and others who should be familiar with regulations and county paperwork.

Irene Whitmore did respond. She and her husband rent out their in-law unit on 12th Avenue, a picturesque Live Oak street popular with vacationers. She said many rental owners have long operated without a license, and said she is not surprised at the flood of applicants.

"I look up and down my street, and I know which are rentals," Whitmore said. "That's part of why people buy

here."

But coming in to get a permit — which is separate from getting a tax certificate — carried an unexpected price. Whitmore was asked to pay three years of back taxes, which set her back \$1,400.

Despite the unexpected tax hit, Whitmore seemed more concerned about the county process for getting a permit. To legalize a unit, an owner not only has to get a transient occupancy tax certificate, but a Planning Department permit, too. The latter includes several pages of instructions, and includes a requirement that owners provide a scale drawing of their property.

"I don't mind being under permit. It's just having to do all this other stuff," Whitmore said. "Neither my husband nor I know how to draw things to scale so we're probably going to have to hire someone."

Rita Law helps manage vacation properties for Kendall & Potter, and says she's seen the same thing.

"A lot of my owners that have looked at this are just overwhelmed. ... It's been a nightmare for a lot of people. I feel bad for them," Law said. "I did lose one person because it was just too much for them."

County Planner Steve Guiney said the form is comparable to other Planning Department paperwork.

"In the grand scheme of



DAN COYRO/SENTINEL

Supervisor John Leopold stands in the beach neighborhood of 13th Avenue where a number of the homes are vacation rentals. Leopold's controversial county law will limit the number of vacation rentals in any one neighborhood.

things, it's not that big of a deal," Guiney said.

LEVEL PLAYING FIELD

Lorraine Heng has operated a legal vacation rental since 2007. She too is not surprised by the flood of applicants, and says the new laws will end a disadvantage for tax-paying rental owners.

"I think it levels the playing field. They tax us quite a bit," Heng said.

Heng was one of the first to get a county planning permit, one of fewer than two dozen to have completed the process. She called it time-consuming but not baffling.

"I spent a lot of time preparing exactly what they wanted," Heng said. "It was doable."

Vacation rental owners, as well as their critics, both acknowledge that the industry has been bolstered by the Internet. National websites such as Vacation Rental By Owner, HomeAway or even local operations like 4 Star Vacations have given owners a leg up when it comes to marketing their properties worldwide.

But it has also given the tax man a chance to crack down. Keeley recently used some websites to research who was doing vacation business and checked that information against county tax rolls. Anyone without a transient occupancy tax permit recently got a letter asking them to comply with the law.

"My intent is to even the playing field, so that everyone who is in the business and has a tax obligation is paying," Keeley said.

The Santa Cruz County Conference and Visitors Council favored the regulatory effort, seeing it as a way to put all rental owners on the same footing and ensure tourists have a safe and positive visit to the county. But Chief Executive Officer Maggie Ivy said the council did not get involved in the details of the new law, and did not weigh in on them.

William May, executive director of the Seattle-based Vacation Rental Industry Association, said his group also favors regulations. While May said the premise for such laws — to control neighborhood problems — is often overblown, regulations do ensure a rental owner's right to operate within a city.

"We encourage everyone to get a permit and pay their taxes," May said.

The county isn't the only one going after scofflaws. With local governments feeling the budget pinch, even cities like Santa Cruz — which does not regulate vacation rentals but does require them to pay taxes — are going after rentals through Internet advertisements and other means.

"We, like the county, are going through to see who's complying and who's not," Santa Cruz Mayor Ryan Coonerty said.