

Special Report

---

---

**Rental Housing Licensing Pilot Program  
Cost Analysis**

October 2006

---

---



Office of the County Auditor  
Baltimore County, Maryland

Special Report

---

---

**Rental Housing Licensing Pilot Program  
Cost Analysis**

---

---

Project Team

Elizabeth J. Irwin, Director of Fiscal and Policy Analysis

Kimberly A. Bauer-Weeks, Principal Auditor



Office of the County Auditor  
Baltimore County, Maryland



BALTIMORE COUNTY, MARYLAND  
OFFICE OF THE COUNTY AUDITOR

BRIAN J. ROWE, CPA  
COUNTY AUDITOR

COURTHOUSE - ROOM 221  
TOWSON, MARYLAND 21204  
410-887-3193  
410-887-4621 (Fax)

MARY P. ALLEN, CPA  
DEPUTY COUNTY AUDITOR

October 12, 2006

Honorable Members of the County Council  
Baltimore County, Maryland

We reviewed the Rental Housing Licensing Pilot Program (RHLPP) in order to estimate the cost of implementing a countywide rental housing licensing program and to determine the licensing fee that would be required to allow such a program to be self-supporting. Our review covered the period June 3, 2002 to August 23, 2005.

Based on our review, we estimate the cost of implementing a countywide rental housing program to total \$2.1 million annually, requiring a biennial licensing fee of \$95<sup>1</sup> per unit to fully support this program. The estimated fee represents an increase of \$45 over the current \$50 biennial licensing fee but is significantly less than the Department's estimate of \$250 per unit.<sup>2</sup>

While the above estimate is the total cost to operate the program countywide, it does not necessarily represent additional costs. In this regard, we were unable to determine to what extent existing resources would be available to allocate to this program. For example, we noted that the Department does not adequately account for inspection man-hours incurred by its inspection workforce. Additionally, our cost estimate is based upon a number of significant assumptions, the most important of which are explained in Exhibit A. Many of these assumptions were necessary due to inadequate and inaccurate program data.

Finally, our review disclosed a number of program deficiencies, including implementation in only 5 of 10 pilot communities, inconsistent application and enforcement of licensing requirements, missing and/or incomplete documentation, and a lack of formal, written policies and procedures.

---

<sup>1</sup> Our fee estimate of \$95 per unit does not consider revenue that would be generated from fines and penalties assessed for violations detected by the inspectors.

<sup>2</sup> Documentation was not available to support the Department's estimate.



The Department did not provide a written response to our findings.

Our reports are available to the public and may be obtained by contacting the Office of the County Auditor, 400 Washington Avenue, Towson, Maryland, 21204, or by accessing our Office web page from the County's web site at [www.co.ba.md.us](http://www.co.ba.md.us).

We wish to express our appreciation for the cooperation and assistance extended to us by the Department of Permits and Development Management during our review.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Brian J. Rowe". The signature is fluid and cursive, with a large initial "B" and "R".

Brian J. Rowe, CPA  
County Auditor

# Rental Housing Licensing Pilot Program Cost Analysis

## Background

In June 2002, the Council enacted Bill 49-02 (effective July 25, 2002) to establish a four-year Rental Housing Licensing Pilot Program (RHLPP) to address the physical decline of properties in certain areas of the County. The RHLPP requires owners of residential rental properties containing six or fewer dwelling units to obtain a license for each of their rental units. Each license covers a two-year period and is required to be renewed prior to expiration for an additional two-year term. The licensing fee was set at \$50 per dwelling unit, except that the fee is \$40 per unit for owner-occupied properties with one or two tenants. In order to obtain a license, each dwelling unit (i.e., each unit within each property) must be inspected and any deficiencies noted as the result of the inspection must be corrected.

Violating the licensing requirements could result in a civil penalty of \$25 for each day that a violation occurs and \$200 per day for each day that the owner does not comply with a correction notice. A one-time \$1,000 fee may be assessed for renting a unit without a license and a \$25 per day penalty may also be assessed if a license is not obtained within five days of receiving a correction notice for failure to be licensed.

When established in 2002, the RHLPP targeted five communities: Hawthorne Park, Middlesex, Colgate, St. Helena, and Old Dundalk. In May 2005, the Council passed legislation (Bill 43-05) that added five more communities: Loch Raven Village/ Knettishall, Ridgeleigh, Rodgers Forge, parts of Perry Hall, and Towson Manor Village.<sup>3</sup>

As of August 2005, State Department of Assessments and Taxation (SDAT) records identified 1,666 non-owner-occupied residential properties located in pilot program areas. We estimate that these properties include 2,036 dwelling units (a property may include one or more units) potentially subject to the licensing requirements under the pilot program. Additionally, the SDAT records identified 37,500 non-owner-occupied residential properties countywide of which we estimate 45,237 units are potentially subject to the RHLPP licensing requirements.<sup>4</sup>

---

<sup>3</sup> Subsequent to our review, the RHLPP was amended to add 3 additional communities and to eliminate the sunset provision (Bills 40-06 and 103-06).

<sup>4</sup> Insufficient data was available to estimate the number of owner-occupied residential rental properties that would be subject to RHLPP requirements, or to estimate the number of exempt properties (e.g., properties rented to family members, properties not rented, garage or shed parcels) included in the SDAT records as non-owner-occupied residential properties. However, pilot program data recorded by PADM suggests that the number of owner-occupied rental properties may be minimal (e.g., less than 1% of the total rental properties).

The Department of Permits and Development Management (PADM) is responsible for administering the RHLPP. The RHLPP law states that the Department may adopt regulations to carry out the provisions of the RHLPP. The Department's other administrative responsibilities include:

- Preparing and processing application forms, and collecting application and license fees and fines and penalties;
- Inspecting dwelling units before issuing licenses;
- Issuing licenses for eligible units;
- Denying, suspending, or revoking a license if the applicant/licensee violates the RHLPP law or any regulation adopted under the law or fails to correct a final order;
- Performing follow-up inspections to determine if deficiencies have been corrected;
- Advertising the program (in a newspaper of general circulation once a week for at least three weeks prior to the effective date of the program in each pilot area); and
- Establishing and maintaining all records related to the RHLPP.

The RHLPP is administered by the Department's Bureaus of Miscellaneous Permit Processing and Code Enforcement. The Bureau of Miscellaneous Permit Processing reviewed RHLPP applications for completeness (i.e., all required supporting documentation was submitted). It also recorded applications and fees, which were forwarded to the Office of Budget and Finance for deposit, and forwarded a copy of each application to the Bureau of Code Enforcement. Upon approval by the Bureau of Code Enforcement, the Bureau of Miscellaneous Permit Processing issued the rental housing licenses to the property owners. The Department's Bureau of Code Enforcement identified (by referencing area maps and web-based State assessment records) rental properties potentially subject to RHLPP requirements, inspected dwelling units, issued correction notices and citations when necessary, and recorded actions taken (e.g., approval to issue license; correction notice issued, etc.) with respect to each rental property into its RHLPP Database.

The RHLPP was enacted as a pilot program in order to assess its effectiveness and the related cost before deciding whether to implement the program countywide. In particular, Bill 49-02 required the Department to file a report with the County Executive and County Council detailing the effect of the RHLPP in the pilot areas on the second anniversary after its effective date and upon expiration of the program, which was originally to be four years from the effective date.

In October 2004, the Department issued a report on the RHLPP for the period from December 2002 through July 22, 2004. The report noted that 777<sup>5</sup> rental properties were subject to licensing in the five pilot areas existing at that time, and that licensing fees totaling \$48,350 had been collected. The report also noted a total of 3,417 man-hours were used for RHLPP activities during the reporting period. The report concluded that to continue the program on a pilot basis for the five pilot areas, the Department would need to hire three full-time inspectors and two support staff. The report further concluded that, since it required five employees (three inspectors and two staff) to service five areas, it would require a proportionate number of additional staff if areas of similar size were added to the program. In January 2005, the Department issued a supplemental report on the RHLPP that described the benefits of the RHLPP to the citizens in the pilot areas and stated that a minimum licensing fee of \$250 would be required to offset the expense of expanding the program into other areas of the County. However, detailed supporting documentation was not available to support these estimates.

---

<sup>5</sup> Although the report noted 777 rental properties, the total should be 775 rental properties according to the RHLPP database after adjusting for duplicate entries.

## Findings and Recommendations

- 1. The estimated cost of implementing a rental housing licensing program countywide totals \$2.1 million annually, requiring a biennial fee of \$95 per unit.**

Based on our review of available data, we estimate that the cost to implement a countywide rental housing licensing program totals \$2.1 million annually. Based on this estimate, a biennial fee of \$95 per unit would be required to support the estimated costs. Our cost estimate is based on available records maintained by the Department, representations from the Department (inspectors and staff), information from outside sources (e.g., State Department of Assessments and Taxation), and other pertinent sources.

Our estimate, however, is based upon a number of significant assumptions, the most significant of which are summarized in Exhibit A. These assumptions were necessary due to a number of deficiencies noted during our review and commented upon in this report. Consequently, our cost estimate could change significantly if more accurate, complete, and reliable data were available.

It should be further noted that due to the lack of sufficient data, we were unable to determine how much of the \$2.1 million in estimated annual costs represents “additional” costs to the County rather than a redirection of available resources. Finally, our fee estimate of \$95 per unit does not consider revenue that would be generated from fines and penalties.

**In order to prepare a more reliable cost estimate, we recommend that additional, comprehensive data be developed based on the current number of communities subject to the licensing requirements.**

- 2. At the time of our review, the RHLPP was not implemented for all communities targeted by the enabling legislation.**

Although the RHLPP was established effective July 25, 2002 (Bill 49-02), our review disclosed that the program was not fully implemented until January 2004, a 16-month delay. Additionally, we were advised that the program was suspended in August 2004, 8 months later. Consequently, at the time of our review, none of the properties included in five communities added to the program in May 2005 (Bill 43-05) had been inspected and/or licensed.

**We recommend that the Department initiate procedures to ensure that all properties in the targeted communities be inspected and licensed in accordance with Bill 49-02 and Bill 43-05.<sup>6</sup>**

---

<sup>6</sup> The Department should also comply with provisions of Bill 40-06 and Bill 103-06 enacted subsequent to our review.

**3. Licensing requirements were not consistently applied and/or enforced.**

Our review disclosed that licensing requirements were not consistently applied and/or enforced for all properties in the targeted communities. In some cases, properties were licensed prior to the Department's receipt of application fees and/or without an inspector's approval that the property met program standards. Further, our review disclosed no evidence that proper procedures were in place to ensure that timely inspections were performed on a consistent basis. Specifically, our review disclosed the following:

- a. Our review of 107 property files disclosed that 18 properties were licensed without evidence of an inspector's approval.
- b. A review of 23 property files disclosed that 2 licenses were issued before the Department received the application fees and 7 licenses were issued before the Bureau of Code Enforcement received the application.
- c. In accordance with Federal regulations, Section 8 housing units are required to have an interior inspection annually and prior to occupancy. To avoid a duplication of effort, the Department verifies the Section 8 housing status of each Section 8 designated unit with the Department of Social Services, Housing Office and relies on the interior inspections performed by that Office. Based on the Department's information database, 95 of the 775 properties were identified as Section 8 properties. However, our review of 67 property files disclosed that there was no documentation on file to evidence that the Section 8 status had been verified for any of the 67 properties. Consequently, there was a lack of assurance that these properties had been properly inspected prior to being issued a license.
- d. Inspections were not always completed in a timely manner according to the RHLPP database. In this regard, Bill 49-02 requires an inspection to be performed within a "reasonable time" after receiving an application for licensure. An analysis of inspection dates recorded in the RHLPP database for 101 properties revealed that 76 properties were inspected 31 to 413 days after the date the application was received.

**We recommend that the Department establish procedures to ensure that program licensing requirements are consistently applied and enforced. These procedures should include appropriate supervisory reviews of all applications, inspections, correction notices, and other pertinent documentation prior to a license being approved.**

**4. The Department's RHLPP database was inaccurate and incomplete.**

The Department maintains a database to record, organize, manage, and update information related to the RHLPP. Our review disclosed, however, that the database was inaccurate and incomplete. For example, we noted that inspection man-hours totaling 3,417 hours were overstated by 1,026 hours (30%) due to clerical errors (e.g., 1- and 2-hour inspections recorded as 100- and 200-hour inspections). Additionally, rental registration fees for 18 properties were not properly recorded. Further, the database did not identify all dwellings/units to be licensed. Specifically, out of 775 properties recorded, the number of licensed sub-units for 107 properties was not identified. Finally, inspection dates were not recorded for 674 of the 775 properties listed. Consequently, the Department's database could not be relied upon to ensure that all program requirements were consistently applied and enforced.

**We recommend that the Department establish procedures to ensure that the database contains accurate and complete information. These procedures should include appropriate reconciliation (e.g., man-hours recorded to employee time sheets) and supervisory reviews.**

**5. Documentation was not maintained on file to ensure that all properties were inspected and that inspection deficiencies were corrected.**

An inspection worksheet is prepared for each property inspection to document the results of the inspection. However, our review disclosed that inspection worksheets were not maintained on file for 107 of 112 files reviewed. Additionally, although the Department's records indicated that 327 correction notices and 95 citations were issued, our review disclosed that none of the notices or citations were maintained on file. Finally, documentation such as a re-inspection checklist was not maintained to evidence that deficiencies noted as a result of property inspections were corrected. For example, of 39 files reviewed, 37 files lacked evidence to indicate that the required work was performed to bring a deficient property into compliance or that a code enforcement hearing was held for the property. Consequently, there was a lack of assurance that all licensed properties were inspected and that a correction notice or citation was issued for all deficiencies noted as a result of property inspections or that such deficiencies were properly recorded, monitored, and corrected.

**We recommend that inspection worksheets, correction notices and citations, and documentation that inspection deficiencies have been corrected be maintained on file during the two-year period for which the license remains valid or until an inspection has occurred for a license renewal or the property is no longer rented.**

**6. Time and attendance reports were not maintained to account for inspection man-hours.**

At the time of our review, the Department's code inspection workforce consisted of 33 inspectors. Our review disclosed that inspectors were not required to submit time and attendance reports identifying the number of properties inspected for the RHLPP (or other purposes) and the time spent for each inspection. Consequently, we were unable to account for inspection man-hours reported for the RHLPP, including over 400 overtime hours. In this regard, we were advised that inspectors often conducted private business (e.g., secondary employment) during normal working hours.<sup>7</sup>

**We recommend that time and attendance records be maintained for each inspector identifying the number of inspections performed by property and the time spent for each inspection.**

**7. Formal, written policies and procedures were not established to help ensure the consistent application and enforcement of RHLPP requirements.**

Our review disclosed that the Department had not established formal, written policies and procedures to help ensure that the RHLPP requirements were consistently applied and enforced. In this regard, we noted that applications were not always processed in a timely manner, inspections were not always performed in a timely manner, deadlines for correcting inspection violations were not consistently established, record retention schedules were not established, and procedures were not established to ensure that all properties in the targeted communities were properly licensed.

**We recommend that the Department adopt formal, written policies and procedures to help control and manage program activities and to help ensure that licensing requirements are consistently applied and enforced.**

---

<sup>7</sup> Investigation of this allegation was not within the purview of this assignment.

## **Scope, Objectives, and Methodology**

The purpose of our review was to estimate the costs of implementing the Rental Housing Licensing Pilot Program (RHLPP) on a countywide basis and to determine the licensing fee that would be required to support the annual costs. The RHLPP was established by Bill 49-02, effective July 2002, and amended by later legislation to provide a basis for PADM to evaluate the success or failure of such a program without having to implement the program full-scale.

We reviewed RHLPP activities for the three-year period from June 3, 2002 to August 23, 2005. Our review consisted of: inquiries of appropriate personnel; review of applicable laws, rules, regulations, policies, and management controls over the RHLPP; and inspection of pertinent documents and records. Further, we tested RHLPP transactions (utilizing computer-aided auditing techniques where applicable) and performed other procedures as we considered necessary to achieve our objectives. Our review did not constitute an audit conducted in accordance with generally accepted government auditing standards.

**Rental Housing Licensing Pilot Program  
Cost Analysis**

**Exhibit A**

**Methodology for Countywide Cost Estimate**

Frequency of inspections	Biennial
Units to inspect	45,237
Inspectors needed	31
Support staff needed	4.5
Inspector supervisor needed	1
Annual personnel costs	\$1,975,519
Other annual operating costs	139,306
Total annual costs	\$2,114,825
Annual revenue, excluding fines & penalties <sup>8</sup>	\$1,130,925
Net cost over current annual fee revenue	\$983,900
Licensing fee (per biennial period) necessary to cover annual costs	\$95 per unit

These estimates were based on the following assumptions:

- Non-owner-occupied residential properties as identified by the State Department of Assessments and Taxation (SDAT) represent potential residential rental properties with one to six dwelling units subject to the rental housing licensing requirements. Residential rental units with more than six units are separately identified in the SDAT records. As of August 23, 2005, there were 37,050 non-owner-occupied residential properties according to SDAT records.<sup>9</sup>

<sup>8</sup> Based on the current fee of \$50 per unit per biennial period for all units. Although a fee of \$40 per unit is allowed for owner-occupied properties with one or two tenants, insufficient data was available to estimate how many units would be eligible for the \$40 fee. Further, insufficient data was available to estimate revenue from fines and penalties.

<sup>9</sup> Insufficient data was available to estimate the number of owner-occupied residential rental properties that would be subject to RHLPP requirements, or to estimate the number of exempt properties (e.g., properties rented to family members, properties not rented, garage or shed parcels) included in the SDAT records as non-owner-occupied residential properties. However, pilot program data recorded by PADM suggests that the number of owner-occupied rental properties may be minimal (e.g., less than 1% of the total rental properties).

- The 37,050 potential rental registration properties contain an estimated 45,237 dwelling units. This estimate is based on the number of units per property for each property in the first five areas of the pilot program as recorded by PADM. The numbers of properties with one, two, three, four, five, and six units were pro-rated as a percentage of the total. Specifically, 86.2% of the properties had one dwelling unit, 9.9% had two units, 1.3% had three units, 1.2% had four units, 1% had five units and 0.4% had six units. These pilot program percentages were applied to the countywide total number of potential rental registration properties to compute the estimated countywide total number of dwelling units.
- Inspectors can complete 912 inspections per year. This estimate is based on representations by PADM inspectors that an inspector can complete four inspections per day and assumes 228 working days per year, excluding holidays and estimated leave usage. We relied on this representation of inspections per day because PADM does not currently maintain sufficient records (e.g., employee time sheets) to account for all of the time worked by each inspector. Consequently, there is no written documentation of the number of inspections each inspector can complete per day.
- 26% of the units will fail the first inspection and require re-inspection. This assumption is based on pilot program experience as recorded by PADM. Using this re-inspection rate, the 45,237 units will require 56,999 inspection visits.
- To complete 56,999 inspection visits over two years, 31 full-time inspectors are needed. This estimate is based on each inspector completing 912 inspections per year. Further, we assume that, in a countywide program, rental licenses would be staggered throughout the two-year period such that not all properties would be licensed at the same time. Such staggering avoids peak workload conditions requiring large numbers of inspectors on a temporary basis. Finally, since PADM does not currently account for all of the time worked by its inspectors, we cannot determine how many, if any, of the 31 inspectors could be assigned from current staffing levels.
- To provide administrative/clerical support for 31 inspectors, 4.5 full time equivalent (FTE) support staff positions are needed. This estimate is based on the FY 2006 operating budget and representations from PADM, which indicated that of the total positions budgeted, 4.5 FTE support staff were assigned to 31 current code enforcement inspectors, which equates to 1 FTE support staff position for every 6.9 inspectors.
- To supervise 31 inspectors, one supervisor is needed. This assumption is based on the FY 2006 operating budget, which reflects a ratio of 1 supervisor for 31 code enforcement inspectors.

- Personnel costs include salary and fringe benefits for the number of inspectors, support staff and supervisors needed. Salary costs were based on the FY 2006 average budgeted salary for these positions. Fringe benefit costs total 30.39% of salary as determined by the Office of Budget and Finance for FY 2006 based on countywide cost statistics.
- Other annual operating costs include mileage reimbursement (\$94,358) to inspectors, who use personal vehicles for travel to inspection sites, supplies and materials (\$24,337), postage (\$20,243), and advertising (\$368). Estimated costs were based on representations by PADM, estimates of average distance to inspection sites, estimates of office supplies required, and pilot program experience as recorded by PADM.