



CITY AUDITOR

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June 24, 2015

Members of the Bremerton City Council
Mayor Patty Lent

Attached is my report reviewing the implementation of the rental licensing ordinance. The ordinance, effective January 2014, is intended to address the condition of rental properties by requiring rental property owners to be licensed. The review was scheduled on the 2015 work plan.

The 2010 U S Census reported 8,552 renter-occupied housing units. The city does not know exactly how many units are licensed since the software does not provide totals and is not designed for owners with more than three units. It is estimated that approximately 5,400 units are licensed. The report observed that the level of staffing of the Tax and License and the Community Resources was not sufficient to implement the program in a timely manner. In addition, the report noted there are opportunities to improve the flow of data in the whole process.

The assistance of the Jeanette Wischhoefer in Tax & License and Joseph Sexton in Community Resources is greatly appreciated.

Sincerely,

Gary W. Nystul

cc: Chief of Police
City Attorney
Director of Financial Services

RENTAL LICENSING REVIEW

Purpose

The City Council passed an ordinance effective January 2014 revising the licensing of rental residential properties. This is a review of the first year of the revised process.

Scope

The review included residential rental licenses issued during 2014.

Statement of Auditing Standards

This performance audit was conducted in accordance with Generally Accepted Government Auditing Standards, except section 3.82 requiring an external peer review. Those standards require the auditor to plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on audit objectives. The auditor believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

Objectives

To determine:

- If the changes in rental licensing were implemented
- The intended effect of the licensing is being accomplished
- Participation in the police department landlord notification program
- If there are any observations from the process relative to economy, efficiency or effectiveness

Summary of Results

- The TaxTools software is not adequate for the needs of rental licensing
- Using the censes as a measure, many rental units are not licensed
- Extra help resulted in obtaining over 500 new licenses
- Providing clerical assistance to both the Tax and License department and Community Resource Specialist could help implement the program in a timely manner
- Finding an additional 400 unlicensed owners would generate \$30,000 additional revenue to support the program

BACKGROUND

In June 2013 the City Council passed Ordinance 5221 entitled “Rental Property Registration” with an effective date of January 1, 2014. The ordinance requires any landlord who rents, or makes available for rent, a dwelling unit to obtain a rental license. The fee is \$75 for one or more rental properties. The City Attorney stated in the agenda bill:

There are residential tenants within the City living in residences that are substandard and potentially dangerous to their health and safety. Substandard rental housing also has a harmful effect on the value of nearby housing and creates an environment which creates an increased demand upon City services and thereby adversely affecting the health, safety and welfare of the citizens of the City.

The ordinance also requires owners to participate in the Police Department’s Landlord Notification Program. In this program, the police department Community Resource Specialist compiles daily reports of police activity and notifies the owner and/or agent of police activity on their property. The information includes reports of events such as assaults, burglary, malicious mischief, unwanted subjects etc. The information is matched to addresses of properties participating in the notification program. An email is sent to the owner and/or manager reporting this activity. If the owner has not provided an email address, a notification will be sent by mail. The intent is to be proactive in dealing with rental property problems by giving owners timely information.

State law, (Landlord Tenant Act) requires a landlord to meet certain requirements for the condition and maintenance of the rental properties, notices to tenants, terms of access and other requirements. The ordinance also requires the owner to declare on the application, that they are in compliance with the Landlord Tenant Act which is found at Chapter 59.18 of the Revised Code of Washington.

The ordinance did not change any provisions relating to code enforcement. The city does not inspect dwelling units for compliance with building codes or the Landlord Tenant Act. Should a tenant have concerns about the condition of their unit, they can contact code enforcement for an inspection or assistance. City inspectors must be invited into a dwelling unit.

Landlord license applications are submitted to the Tax & License division of the Department of Financial Services. Information is requested about the owner and the addresses of all rental units including the number of units at each address.

Licenses are not required if the owner lives in one half of a duplex. A license is also not required if there is no rent paid. Some have reported family members

living in housing units and therefore they are not licensed. Also, accessory dwelling units are not licensed.

The 2010 U.S. Census reported 8,552 renter-occupied housing units in the city. In addition, 1,109 units were reported as vacant, but available for rent. Assuming these were the same rentals in 2014 they would total 9,661. The census has only the categories of “owner occupied” and “renter occupied” housing units. As indicated in the following table, approximately half of the total census units were licensed. It appears there are many rental dwelling units which should be licensed.

The following schedule shows the estimated number of dwelling units for each size of property currently licensed. This is only an estimate because the city does not have a complete list of dwelling units by property. An estimate was made about the number of units based on type of structure, notation on the license application, or units identified by the Community Resource Specialist. Only a portion of the approximately 1,700 licenses active in 2014 were individually verified during this review in an effort to confirm the exact number of dwelling units.

Units/Property	Number of Properties	Dwelling Units
1	1,056	1,056
2	354	708
3	100	300
4	90	360
5	42	210
6	31	186
7	20	140
8	8	64
9	4	36
10	1	10
11	7	77
12	5	60
14	1	14
15	2	30
Over 15	29	2,188
Total	1,750	5,439

DISCUSSION OF ISSUES IDENTIFIED

SOFTWARE ISSUES

The TaxTools software used for rental licensing is limited in its ability to record all of the desirable data for licensing. It only provides space for three properties per license. Many owners have more than three properties and the staff tries to combine entries into the allotted spaces. This precludes sorting of addresses in any data search. It is also not in a compatible format that the police department can import without modifications. In addition, there is no field to enter the number of units in each property. The software does allow the retention in electronic format of the license application and related correspondence which could be helpful.

The software developer has reportedly been working for four years on improving this product to allow for more addresses to be added. The software is also used for the city Business & Occupation Tax collections. There is no information on when the corrections will be completed.

The Community Resource Specialist receives the data from Tax and License in an excel format. However, it must be reformatted for use in the landlord notification program data base. Street addresses must follow a specific format. In addition, the Community Resource Specialist must determine how many units are at each address and the numbering scheme for each unit and then enter that information into the data base.

The Community Resource Specialist also adds the name and email address of property managers or agents to the data base. Although there are only a little over 1,700 rental licenses, when rental managers or agents and the individual units are listed in the data base, there are over 10,000 entries. This is a substantial number of items of data to manage.

DETERMINING THE NUMBER OF RENTAL UNITS

The 2010 Census counted 9,661 residential units and the city licensing process has identified an estimated 5,439. Thus there appear to be about 4,000 residential units which are not licensed. A plan should be developed to locate additional unlicensed units. Some options to consider are:

- The first priority should be for the Community Resource Officer to complete building the data base which includes the number of units for each property. This will give a more accurate estimate of the number of unlicensed units.

- The use of utility billing accounts is a possible source of identifying property required to be licensed. (A test of 70 of 508 water meters in the multi-family class identified five accounts that may not be licensed.) This is a slow process but may be a source of additional properties.
- County real estate tax files could also be sorted by categories of different occupancies. This data can be sorted by 2, 3 or 4 living units, & etc. A comparison of some of these various categories of property to licensed properties may yield additional properties that should be licensed.
- Community Resources sends out an annual verification letter to owners to confirm their contact information and rental units. Tax and License sends out the annual license renewal forms. Results of these mailings could be shared with each other.

RECONCILE THE DATA BASES

There were several differences noted in the two data base listings which if reconciled may change the number of units identified.

- Properties were noted as being listed in Community Resources that were listed as closed in TaxTools.
- Several properties were listed in Community Resources that were not listed in TaxTools.
- Some license numbers listed in Community Resources were incorrect.
- There is no routine established to share changes in licensing information.

The use of two separate data bases, one in Tax & License and one in BPD Community Services, is inefficient. Transmitting license data by excel and then having to reformat excel is inefficient. Additions, changes and corrections must be made in each data base by each office.

THE IMPLEMENTATION HAS NOT BEEN TIMELY

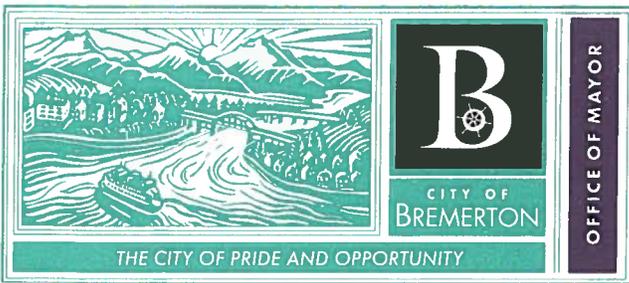
The Community Resource Officer received a listing of new landlord licenses in July 2014. Eight months later he is still getting the data entered in the BPD data base. Consequently it does not appear the staffing level in Tax and License and Community Resources, along with their other duties, allows adequate time to

search records for unlicensed rental units or update files. Data sources such as city utility bills and county property tax records could also be used if there were adequate staff time available.

Temporary help was used in 2014 to assist Tax and License with the implementation of the ordinance. The cost of this help was about \$5,500 and located over 500 additional owners generating \$37,500 additional revenue.

RECOMMENDATIONS

1. There should be a search for unlicensed rental units by Tax and License. This will require temporary help or assistance from other staff in the department. Searching water utility accounts, county property records and landlords registered with the police department may provide unlicensed owners.
2. Properties and licenses could be entered much sooner with temporary help. The amount of time (eight months) that it is taking to add all of the new licenses issued in 2014 by Tax and License to the police data base is not reasonable. Property owners are not able to participate in the Landlord Notification Program until their data is entered.
3. Create efficient ways to share and manage data. There are a number of data related issues that should be discussed and resolved. One approach is to form a working group of the two departments to explore the issues such as creating one data base (such as on the R drive) or at least enable data sharing and or editing. Another joint issue is how to compare the two existing data bases in order to identify exceptions. Some mechanism to share data between the two departments may be helpful. The Community Resources Officer and Tax and License should share updated information with each other as it is received and from the annual verification or relicensing.
4. Identifying 400 additional owners licensed would generate \$30,000 additional revenue to support the goal of improved rental properties. There may well be more than 400 unlicensed owners. The exact number will not be known until the existing licenses are completely entered and the data verified.



Mayor Patty Lent

June 24, 2015

MEMO TO: Gary Nystul, City Auditor
FROM: Mayor Patty Lent 
SUBJECT: Landlord Licensing Review 2015

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This memo is in response to The City Auditor's draft Rental Licensing Review dated April 13, 2015. My staff and I generally agree with the issues stated but don't feel that the issues and recommendations presented necessarily address the stated objectives of the review.

Objective: Were the changes in rental licensing implemented?

In June of 2013 the City Council adopted Ordinance 5221 that provides for the registration and inspection of rental dwelling units. In addition to the business license required since 1999, the ordinance requires that the owner register each rental unit owned and provide a declaration of compliance that each dwelling unit complies with RCW 59 18 060 of the Landlord Tenant Act and does not present conditions that endanger or impair the health or safety of the tenants.

Beginning with 2014 license renewals the additional items required by ordinance 5221 have been required. Tax and license staff spent a significant amount of time over the first half of the year preparing and processing the required forms as well as educating landlords on the required changes and following up on applications with incomplete information. The implementation of the ordinance identified changes/clarifications that were necessary to carry out the intent of the ordinance resulting in the passage of Ordinance 5269 in January of 2015.

Objective: Is the intended effect of the licensing being accomplished?

As stated in the review the intent of the ordinance is to assist in the reduction of substandard rental housing that has a harmful effect on the value of nearby housing and creates an environment which increases demand upon City services.

Since the passage of this ordinance no owners have been cited for a violation nor required to present a certificate of inspection. Increase in notifications to landlords of nuisance activity at their properties has not significantly increased. Increases in notifications are related to increased activity as properties have been added to the notification database upon reports of activity at their properties. However, the collection of landlord information through the licensing program has increased the timeliness of notifications in the event of a call for service at their properties presumably reducing the response time in dealing with problem tenants.

Objective: Participation in the police department landlord notification program

The intent of the 2013 code change was to automatically include all licensed landlords in the notification program. With that end in mind, information collected by the Tax and License division is provided to the Community Resource Officer on a regular basis to add to the landlord notification database.

Objective: Observations from the process relative to economy, efficiency or effectiveness

All of the recommendations from the review relate to this area. The recommendations focus on the addition of staff to identify unlicensed landlords and to assist in the manual entry of data into the landlord notification database as well as finding more efficient ways to collect and share data.

Response to recommendations:

The auditor's recommendations are focused on three areas: The search for additional unlicensed landlords, the addition of extra staff to continue this effort and to assist with the manual entry into the landlord notification database and creating more efficient way to share and manage data. I agree with the recommendation to create more efficient ways to share and manage data.

To that end the Financial Services staff will take the lead in working with all stakeholders to identify their program requirements and work with information services staff to find a more efficient way of sharing information among programs. Relationships with city departments and external agencies that collect similar information will also be explored. This effort is scheduled to be completed during the fourth quarter of 2015.

The number of licensed landlords has increased by over 200 this year without the addition of staff. Given the current level of effort required to identify rental properties I don't believe the addition of staff in 2015 would be productive until the above effort is completed. Notifications of police contact to landlords not currently entered in the notification system will not be negatively impacted as the information collected by the licensing division is available for any new licensees. Staffing levels will be considered during preparation of the 2016 city budget. Given the lack of resources available to fund additional staffing I must consider the return on investment of any staffing decision. As an example additional staffing to focus on the collection to B&O taxes due would return up to \$100,000 to fund city programs as opposed to \$30,000 from license fees.