



# City of Seattle

## Department of Planning and Development

Diane M. Sugimura, Director

March 27, 2013

### MEMORANDUM

**TO:** Councilmember Nick Licata, Chair  
Housing, Human Services, Health and Culture Committee  
Sally Bagshaw, Vice Chair  
Bruce Harrell, Member  
Tom Rasmussen, Alternate

**FROM:** Diane M. Sugimura, Director  
Faith Lumsden, Code Compliance Director

**SUBJECT:** DPD Response to SLI 48-1-A-1  
Rental Registration and Inspection Ordinance (RRIO) Implementation

The following information responds to SLI 48-1-A-1 which calls for a report to the Council by March 31, 2013 with an implementation plan for the Rental Registration and Inspection Ordinance (RRIO) program. As required in the SLI, this report

- Includes an implementation plan addressing required program elements;
- Estimates resources needed by quarter over the 2013-2014 biennium;
- Describes a proposed fee structure; and
- Distinguishes implementation costs that will be reimbursed through fee revenue from costs that will be reimbursed through other revenue sources.

#### I. INTRODUCTION: KEY RRIO PROGRAM ELEMENTS

The RRIO program takes effect in 2014 and requires all rental housing properties in Seattle to register with DPD. The registration requirement is phased in over three years. At the time of registration, property owners must file a declaration confirming that each rental unit on the property meets a set of adopted minimum health and safety standards. DPD is required to develop a weighted checklist to clarify how the adopted minimum standards will apply. Every registered rental property will be randomly selected for inspection at least once over the course of 10 years. Five years after a first inspection, a property may be randomly selected for a second inspection.

RRIO inspections will be conducted by qualified non-City rental housing inspectors who will be trained by and registered with DPD. To ensure the required minimum standards are applied consistently by the private inspectors, DPD will audit inspection paperwork and perform physical inspections on some properties. The ordinance provides for enforcement through warnings, notices of violation, court action, and monetary penalties. The ordinance also

requires development of an online and publicly viewable system to display information for each registered property. This system will also serve as the online registration tool. DPD must develop a fee ordinance, policies, procedures, and director's rules to support implementation and operation of the RRIO program, and must report annually to the Council.

## **II. IMPLEMENTATION PLAN**

Figure 1 displays the 2013 Implementation schedule grouped around four main workstreams:

- 1) IT system selection and development;
- 2) Public-facing activities including outreach, stakeholder work and training;
- 3) Internal work on process and procedures as well as internal training; and
- 4) Fees, costs and budget.

Figure 2 displays high-level milestones within each workstream and presents a picture far less complicated than what is actually occurring. Work product and milestones completed in Q4 2012 and earlier in Q1 2013 are not displayed. Check marks indicate recently completed milestones.

See pages 5 and 6 for more detailed explanation of the implementation plan.

Figure 1



## IT RFP and System Selection

- Write RFP with RFP team; define vendor/software selection criteria
- Select vendor/system and negotiate contract

## IT System Implementation

- Design, Build, and Implement system for property registration, inspector registration, inspections, property database

## Public Facing: Outreach, Stakeholders, Training

- Create detailed outreach plan
- Plan and coordinate stakeholder meetings re: Fees, Checklist, Outreach, etc.
- Create weighted checklist with RSJI filters and obtain public comment
- Build training for landlords and inspectors
- Project manage outreach activities
- Finalize Training for landlords, inspectors and begin delivery
- Finalize web activities and messages

## Process Design

- Confirm process inventory
- Begin detailed process design including RSJI filters
- Create inventory of procedures, policies, forms, letters, director's rules to be written and begin writing

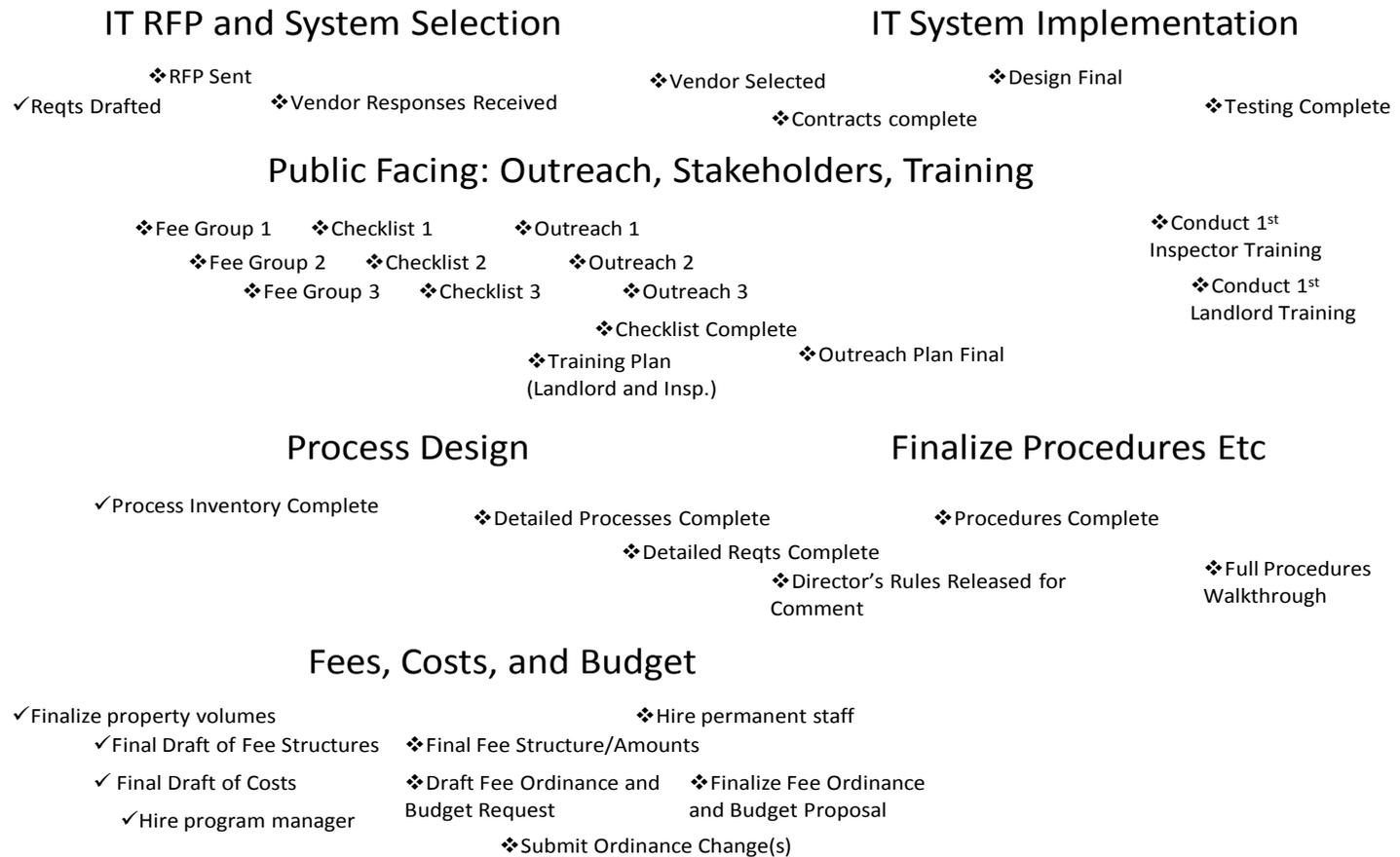
## Finalize Procedures Etc

- Finalize detailed processes once system is selected /configured
- Finalize procedures, policies, forms, letters, director's rules
- Create internal training and helpdesk support materials
- Conduct thorough walkthrough of processes

## Fees, Costs, and Budget

- Finalize rental property volumes
- Finalize cost/capacity/fee model
- Finalize one-time costs including vendor "best guess"
- Develop fee proposal and prepare for Stakeholders Group
- Draft budget proposal and fee ordinance
- Hire program staff
- Finalize budget proposal and fee ordinance

Figure 2



## **A. System Selection**

Early in the initial assessment phase, it became clear that the RRIO IT system would need to be much more than a simple database and that early cost estimates discussed with Council prior to adoption were very low. The system will need to “do” work such as process online registration and fee payment activity, notify property owners about missed deadlines, and randomly select properties and units for inspection. To be effective in serving the thousands of people who will need to access the system, it must be easy to use. It must support mobile applications used by private home and property inspectors. In addition, since the RRIO program will intersect with broader DPD enforcement activities and occasionally with permitting activities, the new system must interact with or be integrated into the overall DPD permit tracking and financial systems.

DPD’s current permitting system (Hansen 7) is nearing the end of its effective life and is unable to meet RRIO requirements. Rather than select an additional permitting system just for RRIO or custom build a separate system, DPD has combined the RRIO IT project into an already in-progress selection and acquisition process for a new department-wide system.

A combined, all-DPD system is better for RRIO users and ultimately saves money. Users will be able to learn how to interact with one system and the Department will need to maintain only a single system.

Combining the systems is the obvious, even elegant solution, but comes with risk. Implementation of RRIO will be dependent on a timely acquisition of the new permitting system. Assuming the DPD system selection and purchasing process moves ahead as planned, the vendor would have approximately four months to develop, customize, test and implement the needed RRIO functionality by January 2014. This is an extremely aggressive target, and may not be realistic based on what we are hearing from the vendors.

The timing of the software purchase for RRIO could also be delayed if DPD is not able to complete the RFP, vendor selection and contract negotiations for the full DPD replacement system on the timeline currently planned.

The first codified deadline for RRIO is July 1, 2014 for registration of all properties with 10 or more units. This target continues to be achievable if we have a slightly later start date than January 1, 2014. We are building contingency plans to accommodate a small delay with the IT system. A longer delay could mean pushing back the first 2014 registration deadline by several months.

## **B. Public-Facing Activities**

Many public-facing activities depend on work being accomplished in the other three workstreams shown in Figure 1. At the same time, work on processes, procedures, rules, fees and even IT system selection will be influenced by what DPD learns from outreach and stakeholder work which is just beginning (first meeting March 14, 2013).

DPD has scheduled three meetings with a stakeholder group to discuss the fee structure and a range of assumptions and program options that will affect cost. Input from the stakeholder group will be incorporated where possible into DPD’s fee and budget request proposals. More information on the fee stakeholder process is available on the Department’s [RRIO Stakeholders webpage](#).

Many of the public-facing activities, including development of the minimum standards checklist, inspector training, landlord and tenant training and general outreach will be developed and managed using the City’s Race and Social Justice Equity Toolkit to help identify and address any racial inequities that might arise due to the RRIO program.

**C. Process Design**

Because RRIO is a new program, it requires new business processes, procedures, and policies. In the fourth quarter of 2012 and early in the first quarter of 2013 DPD drafted high level processes that meet RRIO requirements, mimicking existing processes where possible. Each process must be defined in detail in order to quantify costs and collect the right amount of fee revenue.

These processes cover property registration, registration transfers and renewals, and fee payments -- all to be conducted online, or in person, or by mail. They also include random selection of properties and units to be inspected, communication with property owners, tenants and inspectors, enforcement, auditing, and Help Desk processes.

Because RRIO will affect more than half the city’s residents and more than 60,000 properties, DPD must have efficient and effective processes and must provide extraordinary levels of customer service from the very first day of program implementation. The details of how things will work can’t be left to chance if the program is to succeed.

**III. RESOURCES NEEDED (COSTS)**

**A. Quarterly estimates**

Table 1 presents quarterly costs for the RRIO project, from fourth quarter 2012 through 2014.

Table 1: RRIO costs Q4 2012 –Q4 2014 (in thousands)

	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	
Temporary and New Staff		\$37	\$110	\$168	\$168	\$124	\$124	\$124	\$ 124	
DPD Information Technology	\$17	\$73	\$92	\$153	\$170	\$101	\$17	\$17	\$17	
Vendor Software				\$350	\$350					
Project Mgmt/Outreach/Other	\$67	\$136	\$152	\$172	\$196	\$179	\$6	\$5	\$24	
<b>TOTAL</b>	<b>\$84</b>	<b>\$246</b>	<b>\$354</b>	<b>\$842</b>	<b>\$884</b>	<b>\$404</b>	<b>\$147</b>	<b>\$146</b>	<b>\$165</b>	<b>\$3,272</b>

**B. Assumptions, Outstanding Issues, and Risks.** The cost figures presented above are estimates based on a detailed cost and fee model constructed for DPD by an outside financial

consulting firm. Important assumptions and outstanding issues that may change as the program develops over the coming months include the following:

- 1) Vendor Software. The IT Vendors we contacted are unable to give a firm estimate of costs to purchase and deploy the required IT software until we complete the RFP process. The estimate shown in Table 1 averages the “best guesses” from two leading firms that market and deploy rental housing as well as full permit tracking systems. The estimate is based on a preliminary description of system requirements.
- 2) Online registrations. These estimates assume a high percentage of online registrations and fee payments. DPD’s work on process design shows that receiving registration forms and payments by mail and in person is a significant cost driver due to required data entry and manual processing. DPD is discussing the appropriate target for online registrations with the stakeholder group, although it will still only be an educated guess. Having more registrations filed online will reduce costs and thus reduce registration fees.
- 3) Enforcement Costs. Enforcement costs in 2014 related to late registrations have been minimized in our estimates, given that we expect most multifamily properties to register as required. DPD is discussing with stakeholders a range of enforcement options that include a late fee which could help cover costs associated with late registrations. In future years (2015 and 2016), when the bulk of the registrations are to occur, the potential for significant enforcement costs is high.

#### **IV. FEE STRUCTURE AND OTHER RESOURCES**

Fees needed to support the implementation and operation of the RRIO program will be presented as part of a fee ordinance for council review during 2014 budget discussions. In addition to fees for property registration, DPD will also bring forward proposals for fees tied to private inspector registration and training, renewal of registrations after five years, reinstatements, and possibly a late fee or other proposal for covering the costs of enforcing the registration requirement.

##### **A. Fee Structure**

We are working to develop a fee structure that aligns the cost of providing service to the fee charged. Based on the assumption that larger properties will drive higher costs related to auditing and perhaps for other registration issues, we envision a “base fee plus per unit” fee structure. We are also interested in having a simple fee structure, but there are downsides to a pure flat fee or a simple per unit fee. For instance, if a flat fee is charged, a very small property pays the same amount as a very large property even though large properties will require more effort from DPD (i.e., cost) related to auditing and other issues. A simple “per unit” fee gets very expensive for large properties and probably would not reflect the actual cost of administering the RRIO program for either very large or very small properties. Other approaches under review included a tiered fee structure, a discount for low income housing, and setting a maximum fee for larger properties.

We are gathering input on ideas and options for the fee structure from our stakeholder group, as noted. Current estimates for the fee to register a single family unit are ranging between about \$65 and \$165 dollars for the five year period, depending on which fee structure is used.

Costs for larger properties can go up significantly if using a high per unit cost. All fee structure options will provide the needed funds to cover five years of operating costs (2014-2019) as well as 2012/2013 startup costs. Current estimates for this are \$9-10 million, which represent the start up costs on Table 1, and operating costs from 2014-2019.

**B. Other Resources**

Startup costs for RRIO are being supported out of DPD’s fund balance and must be repaid over the first five years of the program. Full repayment of startup costs adds approximately \$40 to each registration base fee, if using the “base fee plus per unit fee” structure. If another resource were available to cover 2013 startup costs, registration fees would be reduced. Currently, no other resources are included in the cost and fee model.

**C. Other Crucial Assumptions Or Unresolved Issues For Fees And Costs**

- 1) **Number and Unit Count of Properties.** The estimated number of rental housing properties and units over which to spread program costs is set forth in Table 2. There is no source that definitively tracks rentals, so this estimate is based on analysis of King County Tax Assessor records matched with records from Seattle City Light and Seattle Public Utilities, looking for several key indicators of rentals. We will continue to fine-tune these estimates but they will remain estimates and will continue to change as new units are added or other removed from the overall rental housing stock.

Table 2: Rental Property Quantities

	<b>Property</b>	<b>Units</b>
<b>10+ Units</b>	2,273	74,254
<b>5-9 Units</b>	1,822	12,113
<b>2-4 Units</b>	6,091	15,676
<b>1 Unit</b>	51,394	51,394
<b>Subtotal 1-4</b>	<b>57,485</b>	<b>67,070</b>
<b>Total</b>	<b>61,580</b>	<b>153,437</b>

2. **Balancing Registrations across 2015 and 2016.** The current requirements call for all properties with 1-4 units to register no later than December 31, 2016. We estimate around 57,000 properties will need to register by the end of 2016 and assume most will prefer to register close to the deadline. The current business process work indicates the program would be unable to accommodate that volume of registrations, even with significant temporary staffing increases. DPD will be discussing options with the stakeholder group for how to avert programmatic gridlock at the end of 2016. We currently believe a code change will be needed to require registrations for the 1-4 unit properties to be spread out more equally over the two

year period. The fee scenarios presented here and before the stakeholder group include the assumption that registrations will be evenly spread across the 2015 and 2016 calendar years.

**V. CONCLUSION**

The RRIO program has an aggressive schedule with several major milestones set for the coming three to four months. We would be happy to provide additional updates to the Council as we reach future milestones and as additional details of the program become more firm.

CC: Ben Noble  
Susana Serna  
Beth Goldberg  
Melissa Lawrie  
Becky Guerra  
Jaline Quinto  
Alison Van Gorp

**2013 - 2014 Seattle City Council Statement of Legislative Intent**

**Approved**

Tab	Action	Option	Version
48	1	A	1

**Budget Action Title:** DPD Rental Housing Registration and Inspection Program implementation

**Councilmembers:** Bagshaw; Clark; Licata

**Staff Analyst:** Ketil Freeman

**Budget Committee Vote:**

Date	Result	SB	BH	TR	RC	TB	NL	JG	SC	MO
11/07/2012	Pass 8- 1-Absent	Y	Y	-	Y	Y	Y	Y	Y	Y

**Statement of Legislative Intent:**

The Council requests that the Department of Planning and Development (DPD) report to the Council by March 31, 2013 with an implementation plan for the Rental Housing Registration and Inspection Program codified in Seattle Municipal Code Section 22.214.010 *et seq.* The implementation plan should, at a minimum, estimate resources needed by quarter over the biennium to undertake the following implementation steps:

- Establishing a publicly accessible database of properties regulated under the program;
- Outreach to regulated property owners;
- Registration of property owners;
- Outreach to tenants;
- Establishing a training program for private inspectors;
- Promulgating a rule for random inspections; and
- Commencement of random inspections.

The report should also include a proposed fee structures and distinguish implementation costs that will be reimbursed through fee revenue from costs that will be reimbursed through other revenue sources.

Background

In 2012 the Council passed Ordinance 124011 and Ordinance 123311, which together created a regulatory program to register and inspect rental housing. The Rental Housing Registration and Inspection Program requires registration of rental housing beginning on January 1, 2014. Under the program rental units would be subject to inspection to ensure that the units meet minimum Housing Code requirements. Inspections would be performed by inspectors who have completed a training program administered by DPD.

The proposed budget does not appropriate funds for program start-up activities nor does the proposed fee ordinance propose a fee structure to recover the cost of program administration. Start-up activities could include, but are not limited to, creating a database of properties subject to the program, developing a training program for inspectors, and conducting outreach to property owners who may be regulated under the program.

**Responsible Council Committee(s):** Housing, Human Services, Health, & Culture

**Date Due to Council:** March 31, 2012