

MEMORANDUM

October 25, 2016

TO: Planning, Housing, and Economic Development Committee

FROM: Josh Hamlin, Legislative Attorney 

SUBJECT: **Worksession 5: Bill 19-15, Landlord –Tenant Relations – Licensing of Rental Housing – Landlord-Tenant Obligations**

Bill 19-15, Landlord –Tenant Relations – Licensing of Rental Housing – Landlord-Tenant Obligations, sponsored by Lead Sponsor Councilmember Elrich and Co-Sponsor Councilmember Navarro, was introduced on April 21, 2015. A public hearing on the Bill was held on June 18, 2015 and Planning, Housing and Economic Development Committee worksessions were held on April 11, 2016, June 27, 2016, August 1, 2016, and September 15, 2016. Councilmember Elrich, lead sponsor of the Bill, has submitted a memorandum discussing the objectives and provisions of the Bill (©31-32).

Bill 19-15, as introduced, would:

- (1) provide for annual inspection of certain residential rental properties;
- (2) require the use of a standard form lease and applicable optional provisions for certain residential rental properties;
- (3) require the publication of certain information related to rental housing;
- (4) require the Department of Housing and Community Affairs to review certain rent increases;
- (5) provide for certain remedies to be awarded by the Commission on Landlord-Tenant Affairs;
- (6) provide certain rights to tenants facing rent increases; and
- (7) generally amend the law related to landlord-tenant relations.

Background

Chapter 29 of the County Code governs landlord-tenant relations. It establishes the Commission on Landlord-Tenant Affairs (COLTA) as a mechanism for resolving disputes between landlords and tenants and provides a process for resolving such complaints. The law also creates a licensing regime for rental housing, including a requirement that each apartment complex and personal living quarters building¹ be inspected by the Department of Housing and Community Affairs (“DHCA”) at least once every three years. Chapter 29 also imposes certain requirements on landlords and tenants, and includes a number of requirements for leasing practices and the contents of all rental housing leases in the County. Other key components of the County’s landlord-tenant law are the annual collection by DHCA of extensive data related to rental housing in the County and the requirement that the County Executive issue voluntary rent increase guidelines each year.

Bill 19-15 was introduced to address some of the issues raised in the 2010 Report of the County Tenant Work Group (TWG)². The Bill would make several changes to the landlord-tenant law, principally aimed at enhancing the existing rights of tenants and improving the quality of rental housing through increased inspections. The amendments fit generally into three categories: (1) leases and landlord-tenant obligations; (2) licensing and data collection; and (3) rent adjustments.

The Bill was scheduled for a PHED Committee worksession on July 27, 2015, but the worksession was postponed at the request of the sponsor. Councilmember Elrich circulated a revised draft of Bill 19-15 for consideration by the Committee in conjunction with the introduced Bill. The revised draft included several changes to existing provisions of the introduced Bill related to leases, inspections, and the voluntary rent guidelines. It also included two entirely new provisions requiring landlords to provide meeting space for tenant associations and to provide information on utility billing in units without individual meters.

Leases and Landlord-Tenant Obligations

Bill 19-15 would require that the Director of DHCA publish and provide upon request to landlords and tenants: (1) a standard form lease and model optional provisions; and (2) a landlord-tenant handbook. These documents would have to be available in English, Spanish, French, Chinese, Korean, Vietnamese, and other languages, as needed. The Bill would require the use of the form lease and any appropriate model optional provisions for all leases of rental housing in the County, and would require a landlord to provide a tenant with a copy of the landlord-tenant handbook or, at the tenant’s option, a reference to the handbook maintained on the County website, at the beginning of the lease term.

¹ County Code § 29-1 defines “Personal living quarters building” as “any building or portion of a building that: (a) contains at least 6 individual living units; (b) has cooking facilities that the residents may share; and (c) may also have shared sanitation facilities.”

² http://www6.montgomerycountymd.gov/Content/EXEC/TWG/pdf/twg_report_3-2010.pdf. Additional information and discussion of recommendations of the Tenant Work Group can be found in the packet for the PHED Committee discussion on February 25, 2013.

The Bill would also require leases to contain provisions that would: (1) allow a tenant to rescind a lease within two days after signing the lease; and (2) generally allow a tenant to convert a one-year lease to a two-year lease within 30 days after signing the lease. It would also require that a landlord offer lease renewals for two-year terms unless the landlord has reasonable cause to offer a different term. Current law generally requires two-year initial terms, but is silent on renewals. The Bill would also add a new remedy to those available to COLTA in resolving landlord-tenant disputes. Upon a finding that a landlord has caused a condition that violates the terms of a lease (a “defective tenancy”), COLTA would be empowered under the Bill to issue an order permitting a tenant to correct the condition that constitutes the defective tenancy and abating the tenant’s rent in an amount equal to the reasonable cost incurred by the tenant.

Licensing and Data Publication

Bill 19-15 also makes changes to the inspection component of the existing rental housing licensing program. The Bill would require annual inspection by DHCA of all rental housing consisting of two or more dwelling units, including each apartment complex and personal living quarters building. However, it would permit DHCA to inspect certain properties – those whose owners have a demonstrated history of compliance with applicable laws – once every three years. The Bill would also require a landlord found in violation of applicable laws more than twice in two consecutive years to pay the cost of the next inspection of the property. Also, while current law requires a landlord to agree to notify any affected tenant whose unit requires inspection, Bill 19-15 would require that the notice be given at least 72 hours in advance of the scheduled inspection.

The Bill would require the Director of DHCA to publish, unless the publication is prohibited under State law, the information collected in the rental housing data survey on the County website, including a table listing all rental housing consisting of two or more dwelling units and the average rent increase for each unit by the following categories:

1. 100 percent or less of the applicable rent increase guideline;
2. greater than 100 percent, up to 125 percent of the applicable rent increase guideline;
3. greater than 125 percent, up to 150 percent of the applicable rent increase guideline; and
4. greater than 150 percent of the applicable rent increase guideline.

The Bill would require the rent increase guidelines to be based on the increase or decrease in the Consumer Price Index for all urban consumers (CPI-U), where current law references the residential rent component of the CPI-U. All rent increases greater than 100 percent of the applicable rent increase guideline would be reviewed by DHCA under the Bill, to recognize patterns of increases that particularly harm tenants.

Rent Adjustments

Finally, Bill 19-15 would add protection for tenants facing rent increases. Under the Bill, a landlord would be required to give a tenant at least three months written notice before imposing an increase of more than 100 percent of the applicable rent increase guideline. The first of two new sections added by the Bill to Chapter 29 would permit a tenant to ask the Department to

confirm that a rent increase complies with the law. The section would also permit a tenant facing a rent increase that exceeds the applicable guideline to continue occupancy for up to two months after the lease expiration on a month-to-month basis at the current pre-increase rent. In this circumstance, the Bill would require the tenant to give at least 15 days' notice to the landlord before vacating the premises. The second new section would prohibit "rent surcharges," providing that a landlord must not charge more than the rent charged for the prior lease term when a tenant continues occupancy on a month-to-month basis.

June 18, 2015 Public Hearing and Correspondence³

A public hearing on the Bill was held on June 18, and there were 23 speakers. Clarence Snuggs, Director of DHCA, spoke on behalf of the County Executive and expressed general support for the Bill, but identified several problematic provisions. Specifically, Director Snuggs identified the Bill's annual inspection requirement, standardized lease and addenda requirements, tenant lease conversion option, and continued occupancy provisions as areas of concern for the Executive. State Senator Jamie Raskin spoke in support of the Bill, saying that it "effectively advances the security and well-being of hundreds of thousands of Montgomery County residents in their homes."

Nicola Whiteman of the Apartment and Office Building Association of Metropolitan Washington (AOBA) spoke in opposition to the Bill. In AOBA's view, "Bill 19-15 advances unnecessary, duplicative proposals which are codified in current law and/or being implemented by the Department of Housing and Community Affairs." AOBA stated particular objection to the prospect of a required standard lease, highlighting landlords' need for flexibility in lease content. Mitchell Farrah of the Washington Metropolitan Chapter Community Association Institute (WMCCAI) also spoke in opposition to the Bill, raising particular concerns about the standard lease requirement and a perceived imbalance in landlord and tenant culpability for violations, and speaking generally against limitations on rent increases.

The majority of the speakers at the public hearing spoke in support of the Bill and of these, both tenants and tenant-advocates were well-represented. The primary concern conveyed by tenants was that of unfettered rent increases, and they expressed hope that Bill 19-15 would alleviate this concern. Advocates spoke more generally of the need for housing stability for renters. Zorayda Moreira-Smith of CASA offered testimony in support of the Bill, and requested that the Council ensure that the various notices required under Chapter 29 be provided in multiple languages, and consider ensuring that required two-year leases be under the same terms as one year leases.

The Montgomery County Renters Alliance submitted a letter dated July 23, 2015 specifically addressing the Fiscal Impact Statement, pointing out that the statement contains nearly two pages warning of impacts of rent control, which is not a component of Bill 19-15. The Housing Opportunities Commission of Montgomery County (HOC) submitted a letter dated July 23, 2015, outlining HOC's concerns about the impacts of the Bill. In the letter, HOC indicates that the three month notice for rent increases would pose problems, as could the provision making certain landlords responsible for the cost of inspections. HOC also expressed concern about the standard

³ Copies of referenced public hearing testimony has been included in prior packets, but is omitted from this packet.

form lease requirement and questioned the value shifting the basis for the voluntary rent guidelines to the CPI-U as a whole (rather than the residential rent component).

Prior PHED Worksessions

The PHED Committee convened panels of stakeholders for worksessions on the Bill on April 11, June 27, and August 1. Panelists at these worksessions included: Clarence Snuggs, Director, Department of Housing and Community Affairs; Stacy Spann, Executive Director, Shauna Sorrells, Director of Legislative and Public Affairs, and Kayrine Brown, Chief Investment and Real Estate Officer, all of the Housing Opportunities Commission; Robert Goldman, Executive Director, Montgomery Housing Partnership; David Hillman, Chief Executive Officer, Southern Management Corporation; Madiaw Diop, Tenant/Montgomery Housing Partnership Board Member; and Matt Losak, Executive Director, Montgomery County Renters Alliance. The Bill's sponsor, Councilmember Elrich, also attended all of the worksessions. The Committee and panelists discussed all of the proposed changes to the law included in the introduced Bill, as well as a revised draft of the Bill submitted by Councilmember Elrich.

During the first three worksessions, the Committee reached general consensus on a number of issues presented by the introduced Bill and revised draft. At the fourth worksession, the Committee reconsidered the Bill's standard form lease requirement, and recommended deleting this requirement. The Committee recommended an amendment to require that each lease for rental housing located in the County contain a plain language summary of tenant rights and responsibilities in a form approved by executive regulation. The Committee recommended an amendment to the Bill to require landlords of buildings constructed before July 1, 1978 to provide the same information regarding the calculation of gas and energy billing as is required under State regulation for newer buildings. The Committee also discussed, but did not resolve, the following matters: (1) the provision of free meeting space to tenant organizations; (2) the possibility of adding additional "repair-and-deduct" provisions; (3) the introduced Bill's prohibition on landlords charging higher rent to tenants opting to go month-to-month ("rent surcharges"); and (4) the frequency of DHCA inspections of rental housing.

Items resolved at prior Committee worksessions

As described above, the Committee reached tentative agreement on retaining, modifying, deleting, or adding to many of the provisions in the introduced Bill. These are described below:

- Require the Director to publish and maintain on the County website, in multiple languages, a model lease which may be used in each written lease for rental housing located in the County (©2, lines 8-18).
- Delete references in the introduced Bill to "optional model provisions" (addenda) in reference to the standard form lease requirements (©2, lines 11-15; ©4, lines 61-62).
- Require the Director to publish and maintain on the County website, in a printable format and multiple languages, the Landlord-Tenant handbook (©2, lines 19-27).
- Clarify that translation of the standard form lease and Landlord-Tenant Handbook into additional languages beyond the six identified languages is as deemed necessary by the Director (©2, lines 17-18; 25).

- Require that the Landlord-Tenant Handbook be reviewed at least biennially, rather biannually as provided in the introduced Bill (©2, line 26).
- Clarify that the introduced Bill's required 72 hour notice to tenants of scheduled inspections applies only to inspections as part of DHCA's regular inspection program (©3, lines 49-50).
- Modify the introduced Bill's provisions making landlords responsible for subsequent inspections when violations are not corrected to clarify the process (landlord is responsible for third and subsequent inspections when notified of a violation that is not corrected before reinspection) and require the amount of the charge to be set by regulation (©3-4, lines 54-58).
- Delete the introduced Bill's standard form lease requirement and instead require that each lease for rental housing located in the County contain a plain language summary of tenant rights and responsibilities in a form approved by executive regulation (©4, lines 61-63; ©4-5, lines 78-88).
- Delete the introduced Bill's provision allowing a tenant to rescind a lease within two days after signing (©4, lines 65-66).
- Generally allow the tenant to convert a one-year lease to a two-year lease within 30 days after signing the lease (©4, lines 67-69).
- Expand the "tenant notification" requirements of a lease to include notice that DHCA is available to assist with questions about any addenda to the lease, and notice that the tenant is entitled to a hard copy of the Landlord-Tenant Handbook and that the Handbook is available on the County website (©4, lines 70-77).
- Require a landlord to offer a two-year term at each lease renewal, subject to the same exceptions as the initial lease term ("reasonable cause") (©5, lines 91-93; ©5, lines 109-111).
- Require that a landlord, at the beginning of a lease term, must provide each tenant with a hard copy of the Landlord-Tenant Handbook (printed by the landlord), unless the tenant signs a statement declining the Handbook upon referral to the electronic version maintained on the County website (©6, lines 126-130).
- Require a landlord to give a tenant 60 days' notice of the landlord's intent to terminate tenancy at the lease expiration, *unless the tenant is in breach of the lease* (©6, lines 131-134).
- Require a landlord to provide a tenant in a unit in a building constructed before July 1, 1978 with information related to electric and gas billing that is required for newer buildings under State regulation (©7, lines 142-147).
- Require a landlord to post a sign, in a form approved by the Director and in multiple languages, with information about filing a complaint and the retaliatory practices prohibited under this Chapter (©7, lines 148-154).
- Require a landlord of a building or complex with meeting space to make that space available without a fee for a tenant organization to discuss landlord-tenant issues, for the first meeting of each month (©8, lines 174-178) – **See discussion below.**
- Authorize COLTA, upon finding the landlord has caused a defective tenancy, to issue an order permitting a tenant to correct the condition that constitutes the defective tenancy and abating the tenant's rent in an amount equal to the reasonable cost incurred by the tenant (©9, lines 217-219) – **See discussion below.**

- Require that rental housing data be collected by DHCA annually (©10, lines 233-234), and include each rental facility's zip code (©10, line 242).
- Require the Director to publish the data collected, unless otherwise prohibited by law, by unit type and building, but not at the individual unit level. This is consistent with current DHCA practice ©11, lines 260-272).
- Retain reference to the residential rent component of the Consumer Price Index for the purpose of calculating changes in the voluntary rent guidelines (©12, line 282), but provide for the establishment, by regulation, of an alternative standard better reflecting the costs of rental housing in the County (©12, lines 285-286).
- Delete the provision in the introduced Bill requiring the Department to review all rent increases that are more than 100 percent of the applicable rent increase guideline (©12, lines 290-293).
- Require a landlord to give a tenant 90 days' notice prior to *any* rent increase, regardless of whether the increase exceeds the applicable voluntary rent guideline (©12, lines 295-299).
- Delete entirely the introduced Bill's new Section 29-55, which would have allowed a tenant to ask the Department to confirm that an increase complies with the law and continue occupancy for up to two months after the expiration of the lease term at the pre-increase rent (©13, lines 317-325).
- Modify the introduced Bill's prohibition of rent surcharges to provide that a landlord may not charge a tenant more than the rent offered at renewal when a tenant continues on a month-to-month basis (©13, lines 326-329). – **See discussion below.**
- Provide that the requirement that each lease include a plain language summary of rights and responsibilities applies to leases entered into or renewed after the effective date of the law. (©13-14, lines 331-335).

Issues for Committee Discussion at this Worksession

There are four outstanding issues remaining for resolution from the last worksession: (1) the proposed requirement that landlords provide meeting space without charge to tenant organizations; (2) the possibility of expanding the "repair-and-deduct provision that would authorize COLTA to issue orders permitting tenants to make repairs and abate their rent by their reasonable expense in making those repairs; (3) whether to retain or modify the introduced Bill's prohibition on rent surcharges or, alternatively, expand the circumstances in which a tenant may terminate a lease; and (4) the question of whether to mandate more frequent DHCA inspections of rental housing.

1. Requirement that a landlord provide free space for a tenant organization.

Bill 19-15 would amend existing law concerning the provision of meeting space to tenants by landlords. Currently, Section 29-33(b) provides that "tenants and tenant organizations have the right of free assembly in the meeting rooms and other areas suitable for meetings within rental housing during reasonable hours and upon reasonable notice to the landlord to conduct tenant organization meetings." The law permits a landlord to "charge a reasonable fee for the use of the meeting rooms or common areas, but the charge must not exceed the regular schedule of fees for the facility to other groups." Bill 19-15 would prohibit a landlord from charging "a tenant organization a fee for the first meeting of each month held to discuss landlord-tenant issues."

At the August 1 worksession, panelist David Hillman indicated that this provision would violate fair housing law. Council staff consulted with attorneys in the County Attorney's office, and all believe that this provision would not violate the FHA. At the September 15 worksession, staff recommended further defining "tenant organization" by reference to the definition of that term in Chapter 53A – Tenant Displacement. In that Chapter, "tenant organization" is defined as an association of tenants in rental housing that: (1) represents tenants of at least 30 percent of the occupied units in the rental housing; and (2) is certified by the Department according to Executive regulations.⁴ Adding reference this definition would help ensure that a tenant organization is a bona fide representative of tenants, and would avoid potential confusion as to what groups might qualify for this benefit.

The Committee rejected this recommendation as too limiting on tenant organizations, both because of the restrictions on Chapter 53A certification and the fact that it would not provide tenants seeking to organize, but not yet certified, with free meeting space to do so. It was pointed out that the County has an interest in tenants organizing to resolve matters with landlords. Staff was directed to reconsider the matter in light of these considerations.

The term "tenant organization" is used throughout §29-33. It is not specifically defined in Chapter 29, but its meaning can be discerned from the context of the section: a group of tenants organized to meet and confer with landlords and to engage in other concerted activities for the purpose of mutual aid and protection of tenants.⁵ This meaning is substantially less restrictive than the Chapter 53A definition, but arguably does not include a group of tenants trying to establish an organization. If the Council wishes to ensure that tenants trying to form a tenant organization may also avail themselves of the provision by the landlord of free meeting space, §8, lines 174-176 may be amended as follows (language added by this amendment in italics):

conduct tenant organization meetings. A landlord must not charge a tenant organization or a group of tenants seeking to form a tenant organization a fee for the first meeting of each month held to discuss landlord-tenant issues, but

2. The provision authorizing COLTA to issue an order allowing a tenant to make repairs and abate the tenant's rent in an amount equal to the tenant's reasonable cost.

At the August 1 and September 15 worksessions, the Committee discussed the provision of the introduced Bill that would authorize COLTA to issue an order upon finding the landlord has caused a defective tenancy, to issue an order permitting a tenant to correct the condition that constitutes the defective tenancy and abating the tenant's rent in an amount equal to the reasonable cost incurred by the tenant. Council staff pointed out that existing Section 29-47⁶ allows the Commission to award, among other things:

⁴ COMCOR 53A.00.01.02 Certification of Tenant Organization

⁵ See County Code §29-33(a).

⁶ Staff has included all of subsection 29-47(b) in the Committee rewrite for clarity as to the breadth of COLTA's authority to award relief upon a finding of a defective tenancy caused by a landlord.

- Return of all or part of any rent already paid to the landlord after the landlord was notified of the condition;
- An award of damages sustained by the tenant as a result of the defective tenancy, limited to the actual damage or loss incurred by the tenant; the award must not exceed \$2,500 per affected dwelling unit; and
- A reasonable expenditure to obtain temporary substitute rental housing in the area.

Also, under Section 29-10(b)(3), the Commission on Landlord-Tenant Affairs may “enforce this Chapter through any appropriate means, including ordering repairs by a landlord or tenant.” In addition to these County law remedies, State law⁷ provides for payment of rent into escrow when serious and substantial defects and conditions occur. It also allows the Court to terminate the lease, order that the amount of the rent due be reduced, or order the landlord to correct the conditions.

At the August 1 worksession, the Committee heard concerns from landlords that allowing tenants to make repairs could lead to substandard work and expose landlords to legal liability. Councilmember Elrich indicated that the intent of the provision was to address situations where a leaking pipe presents an immediate risk of flooding, or when an air conditioning unit malfunctions during a heatwave. It became clear to the Committee during the worksession that the COLTA process takes over two months, and would not empower a tenant to make repairs to alleviate conditions needing immediate attention.

At the September 15, worksession, the Committee heard that County Code §26-15 provides a process for resolving “severe conditions” arising from violations of County Housing and Building Maintenance Standards and the County Fire, Electric, and Building Codes. Subsection 26-15(a) provides that “[i]f the enforcing agency finds that immediate action is needed to protect the public health and safety as a result of a violation of this Chapter, Chapter 22, Chapter 8, or Chapter 17, the enforcing agency may, without notice, conference, or hearing, order the owner to correct or abate the violation.” The subsection continues “[i]f the owner does not abate or correct the violation as directed . . . the enforcing agency may take any action reasonably necessary to abate or correct the condition or may contract to have the necessary action taken.” Under this section, the owner is liable to the County for all reasonable and necessary costs the County incurs in addressing the condition, and the County may place a lien on the property, collecting the debt as ordinary taxes are collected. However, DHCA informed the Committee that it does not typically engage in making interior repairs authorized in the law.

Councilmember Leventhal indicated a desire for staff to come up with alternative language that would allow a tenant to make repairs and abate rent for the reasonable expense when a landlord does not make needed repairs in a timely manner. Essentially, there are two areas of concern: (1) emergency situations such as that described by Councilmember Elrich; and (2) less critical repairs that are nonetheless neglected by the landlord.

⁷ Maryland Real Property Code (RP) §8-211, *Repair of dangerous defects; rent escrow*. “Serious defects” include: (1) Lack of heat, light, electricity, or hot or cold running water, except where the tenant is responsible for the payment of the utilities and the lack thereof is the direct result of the tenant's failure to pay the charges; (2) Lack of adequate sewage disposal facilities; (3) Infestation of rodents in two or more dwelling units; (4) The existence of any structural defect which presents a serious and substantial threat to the physical safety of the occupants; or (5) The existence of any condition which presents a health or fire hazard to the dwelling unit.

Repair and Deduct Laws Generally

Most states have adopted some form of “repair and deduct” remedy for tenants when landlords do not make certain repairs in a timely manner. In order to protect landlords, the use of “repair and deduct” is often narrowed by several limitations. The most common limitations include requirements that: (1) the landlord be notified of the problem in writing and be afforded a specified amount of time to correct the problem; (2) the repair be necessary and the cost be reasonable; (3) the cost of making the repair is capped; (4) the tenant is permitted to invoke the only remedy a limited number of times; and (5) the tenant must pay rent into an escrow account established by a court. These limitations provide significant protection for landlords, because landlords are provided notice and a chance to correct the issue(s). If a landlord fails to address the problem(s), then the tenant is limited to making only necessary repairs at a reasonable cost.

As the name implies, this option allows a renter to pay for a repair and then deduct the cost of that repair from the tenant’s rent the following month. The “repair and deduct” remedy is well-suited for relatively inexpensive repairs related to essential services when a renter encounters an unresponsive landlord.

Maryland Rent Escrow Law

Under Maryland law, if a landlord fails to repair “serious and substantial defects” in a rental unit, a tenant has the right to pay rent into an escrow account established at the local district court.⁸ This “rent escrow” law prescribes specific conditions under which rent may be placed in escrow. A tenant must give the landlord written notice by certified mail and reasonable time⁹ to make the repairs before the tenant may bring a rent escrow action, and an escrow account can only be set up by the court. Rent escrow is not provided for defects that just make the apartment or home less attractive or comfortable, such as small cracks in the floors, walls or ceiling.

“Serious and substantial defects” covered by the law include, but are not limited to:

- Lack of heat, light, electricity or water, unless the tenant is responsible for the utilities and the utilities were shut off because the tenant did not pay the bill.
- Lack of adequate sewage disposal; rodent infestation in two or more units.
- Lead paint hazards that the landlord has failed to reduce.
- The existence of any structural defect that presents a serious threat to the tenant’s physical safety.
- The existence of any condition that presents a serious fire or health hazard.

A tenant may also withhold rent without establishing an escrow account, but must still notify the landlord by certified mail of the problems in the unit and of the tenant’s refusal to pay the rent. However, in this circumstance, the landlord may take the tenant to court and try to evict the tenant for nonpayment of rent. A tenant may tell the court the reasons for withholding rent, *i.e.*, the landlord’s failure to make necessary repairs. If the court agrees that the condition of the

⁸ RP §8-211.

⁹ RP §8-211(h) provides that “there is a rebuttable presumption that period in excess of 30 days from receipt of notice is unreasonable.”

unit poses a serious threat to the tenant's life, health or safety, the court will require the tenant at that time to make rent payments into an escrow account until the dispute is resolved.

A tenant's only other alternative under State law is to report the landlord to DHCA. If, upon inspection, DHCA cites the landlord for violations, repairs will have to be made. County Code §26-15 provides a process for resolving "severe conditions" arising from violations of County Housing and Building Maintenance Standards and the County Fire, Electric, and Building Codes. Subsection 26-15(a) provides that "[i]f the enforcing agency finds that immediate action is needed to protect the public health and safety as a result of a violation of this Chapter, Chapter 22, Chapter 8, or Chapter 17, the enforcing agency may, without notice, conference, or hearing, order the owner to correct or abate the violation." The subsection continues "[i]f the owner does not abate or correct the violation as directed . . . the enforcing agency may take any action reasonably necessary to abate or correct the condition or may contract to have the necessary action taken." Under this section, the owner is liable to the County for all reasonable and necessary costs the County incurs in addressing the condition, and the County may place a lien on the property, collecting the debt as ordinary taxes are collected.

Authorizing tenants to make emergency repairs without specific requirements of notice to the landlord and the allowance of reasonable time to make the repairs would be problematic, and staff could not identify any other jurisdiction with such a provision. Presumably, in such situations, a landlord's self-interest should provide necessary incentive to make the repairs, as the property itself is likely subject to the most risk of damage. However, if the Council wishes to provide tenants with additional authority to perform repairs when a landlord fails to do so, it could do so by amending §29-27 to require all leases to permit the tenant to make such repairs under certain circumstances. Inserting the following language at ©4, line 78 (and relettering the existing subsection (v) as (w)) would accomplish this.¹⁰

- (v) Permit a tenant to repair defects in the unit and deduct the reasonable cost of the repairs from the tenant's rent up to twice in a 12-month period if:
- (1) the landlord is obligated to repair the defect under the terms of the lease or applicable law or regulation;
 - (2) the tenant provides written notice of the defect to the landlord;
 - (3) the landlord does not make the necessary repair within 30 days after receiving notice;
 - (4) the tenant or the tenant's family, guests, or pets did not cause the defect that requires repair;

¹⁰ If the Bill is so amended, staff recommends deleting the language at ©9, lines 217-219 which, as discussed above, would allow COLTA to issue an order permitting a tenant to correct the condition that constitutes the defective tenancy and abating the tenant's rent in an amount equal to the reasonable cost incurred by the tenant.

- (5) all repair work performed complies with any requirements of applicable code or regulation; and
- (6) the cost of the repair does not exceed one month's rent.

3. The prohibition on “rent surcharges” and the circumstances under which a tenant may terminate a lease.

As introduced, Bill 19-15 would have prohibited rent “surcharges” by prohibiting a landlord from charging more than the rent charged for the prior lease term when a tenant continues occupancy on a month-to-month basis. After discussion at its August 1, worksession, the Committee recommended (as was proposed by Councilmember Elrich) that this be changed to a prohibition on charging more than the rent *offered for a new term*. This provision would not (and probably could not, under State law) require a landlord to allow a tenant to continue after the expiration of a term on a month-to-month basis. However, it would restrict rent increases in the event that the landlord does allow a tenant to continue occupancy month-to-month.

At its September 15 worksession, the Committee revisited this issue after hearing from landlords that such a prohibition would not allow them to incentivize longer term leases, which are often necessary to secure financing from lenders who want to see a stable cashflow. This discussion also included discussion of the County law provisions that allow a tenant to terminate a lease under certain circumstances that are beyond the tenant’s control. The Committee discussed the possibility of expanding the circumstances in which a tenant may terminate a lease to include medical necessity as well as perhaps including some circumstances over which the tenant does have control, such as voluntary change of employment.

Tenant’s Right to Terminate a Lease Under Existing Law

Current County law permits a tenant to break a lease under a fairly narrow set of circumstances. Section 29-27(s) requires all leases in the County to “allow the tenant to terminate the lease upon 30 days’ written notice to the landlord due to an involuntary change of employment from the Washington metropolitan area, death of major wage earner, unemployment, or other reasonable cause beyond the tenant’s control. This section does provide that “the lease may provide that in the event of termination under this provision, the tenant is liable for a reasonable termination charge not to exceed the lower of one month’s rent or actual damages sustained by the landlord.” At the September 15 worksession, Committee members discussed the possibility of expanding these circumstances to allow tenants to terminate leases for causes that are in the tenant’s control.

In addition to the specific circumstances identified in County law, under Maryland law, a tenant who vacates before the end of the tenant’s lease term due to certain medical conditions is not liable for more than two months’ rent after the date on which the tenant vacates the leased premises.¹¹ In order to qualify for the limitation of liability, the tenant must provide to the landlord, before the tenant vacates the leased premises, a written certification from a physician that the patient has a medical condition that: (1) substantially restricts the physical mobility of the patient

¹¹ Maryland Real Property Code, §8-212.2

within, or from entering and exiting, the leased premises; or (2) requires the patient to move to a home, facility, or institution to obtain a higher level of care than can be provided at the leased premises.

Finally, in certain instances, members of the armed services may terminate a residential lease under federal law. The Servicemembers Civil Relief Act (SCRA)¹² allows individuals to break a lease when they go onto active duty if the lease was entered into before going onto active duty. Additionally, the act allows a servicemember to terminate a residential lease entered into while in the military if the member receives permanent change of station (PCS) orders, or orders to deploy for a period of not less than 90 days.

Other jurisdictions provide tenants with different degrees of latitude for terminating leases, but staff was not able to identify any jurisdictions that permit a tenant to terminate a lease for a reason that is under the tenant's control. The reason for this is probably that doing so would so materially affect the tenant's obligations under the lease that landlords would no longer be able to rely upon a tenant's payment of rent for the term of the lease. Other jurisdictions do, however, provide for additional circumstances in which a tenant may terminate a lease. These include: (1) when a tenant or the tenant's child is a victim of domestic violence; (2) if a landlord harasses the tenant or violates the tenant's privacy rights; (3) if the tenant or tenant's spouse is 62 years of age or older and can no longer live independently and must move to a nursing home or other senior citizen housing; and (4) if the tenant is incarcerated or declared insane. The Council could add any or all of these provisions to the circumstances identified in County law by simply adding them to §29-27(s).

Month-to-Month Leases Generally

Prior to discussing the specific provisions of the law, some context on the benefits and drawbacks to tenants of month-to-month leases may help to frame the issue. Some renters prefer shorter-term leases for the flexibility they provide to act on opportunities, including moving for work, family, travel or a better apartment down the street. However, as the Committee has heard, landlords (and their lenders) prefer longer-term leases because of the predictability of cash-flow that they provide. Below is a summary of the benefits and drawbacks of month-to-month leases.

- Month-to-month leases offer more flexibility. A tenant on a month-to-month lease has the flexibility to move without having to find a subletter or paying to break the lease. For tenants looking for a new job or those with a temporary job, a month-to-month lease is desirable.
- There is no charge for breaking a month-to-month lease. Under a 12-month lease, a tenant is responsible for those 12 months of rent payments¹³ – whether or not the tenant still lives in the apartment. If a tenant anticipates having to move before a one- or two-year lease

¹² 50 U.S.C. app. §§501-597b. For specific provisions regarding termination of residential leases, see 50 U.S.C. app. §535.

¹³ A landlord does have a duty under State law to mitigate damages in the event that a tenant leaves before the end of a lease term, so a tenant who terminates tenancy early may not, in fact, be responsible for all remaining months of rent if the unit is rented to a new tenant during the term. See Maryland Real Property Code, §8-207.

term is up, a month-to-month lease, even at a higher monthly rent, may end up being less expensive in the long run.

- A month-to-month lease can often be converted to a long-term lease. If a tenant begins a month-to-month lease but decides to commit to a longer term, the tenant can often convert the lease into a one- or two-year lease without any adverse effects, because of landlords' general interest in longer term leases.

However, there are some drawbacks for tenants with short-term apartment leases. Most notable are the considerations of cost and stability:

- Month-to-month leases are typically more expensive. Property managers charge more for a short-term lease, so tenants end up paying more for the benefits described above. Charging a month-to-month tenant more than a tenant who has signed a longer term lease makes sense from landlords' perspective, as they feel more secure with a longer rental commitment. In exchange for a tenant's written promise to rent for a year or longer, landlords are usually more willing to give a more competitive rental rate. When a monthly tenant decides to vacate after a couple of months, a landlord will incur additional "move out" expenses, in addition to possibly losing rental income until the unit has been rented by a new tenant. The landlord may have advertising expenses, cleaning expenses and perhaps repair expenses if the short-term tenant has caused damage to the unit that is unrecoverable. There is also the potential loss of monthly revenue if the landlord cannot fill the unit quickly.
- Short-term leases are unstable. The flexibility that renting month-to-month gives a tenant also applies to the landlord. Neither is locked into a long-term contract, so there's nothing preventing the landlord from raising the rent (subject to the law's notice provisions) or terminating a lease against the tenant's wishes.

Excessive Rent Increases When a Tenant Goes Month-to-Month

There is anecdotal evidence that landlord's sometimes charge dramatically higher rent when an existing tenant seeks to remain in a unit, but rent on a month-to-month basis. Council staff has seen a renewal offer that offers rents at different amounts that are inversely related to the length of the term. In this offer, a tenant may sign a two-year lease at a relatively modest increase over the prior term's rent. However, this increase over prior rent grows as the new term length shortens, so that if the tenant wished to go on a month-to-month lease, the increase would be roughly 90% over the prior term. The extent to which this practice exists among County landlords is not known.

While the lease termination provisions in County, State, and federal law protect tenants in a range of unforeseen and unavoidable circumstances, there may be times when an existing tenant is not financially able to commit to a long-term lease, and needs to relocate to a less expensive rental property. It is possible to address this circumstance by limiting the amount a landlord can charge a tenant going month-to-month to 10 percent over the rent offered for a longer-term lease, but only for the first three months that the tenant is on a month-to-month lease. This would protect those most vulnerable to excessive rent increases for a limited period to allow them to locate to

alternative accommodations,¹⁴ but would minimize the impediment to a landlord incentivizing longer-term leases. This could be done by amending ©13, lines 327-329 as follows:

A landlord must not charge more than 10 percent above the rent [[charged]] offered for the [[prior]] renewed lease term [[when]] for the first three months that a tenant continues occupancy on a month-to-month basis.

4. DHCA inspections of rental housing.

Proposed annual inspections

The TWG Report identified the concern that “some apartment complexes have ongoing maintenance problems,” and recommended that “buildings with ongoing maintenance problems should be moved to an annual inspection cycle, and that owners of buildings with repeat violations should pay for the increased inspection schedule.” The 2009 Rental Satisfaction Survey also provided a glimpse into tenants’ views as to the condition of their units, among other things.¹⁵ As noted above, the current law requires inspection of each licensed apartment complex and personal living quarters building at least once every three years. As introduced, Bill 19-15 would require annual inspection of *all* rental housing consisting of two or more dwelling units, including each apartment complex and personal living quarters building.

DHCA’s current inspection process is described in the Fiscal Impact Statement. The Department currently inspects approximately 5,700 of the approximately 67,250 licensed multifamily units in the County each year. A higher percentage of units to be inspected are assigned to properties with a history of noncompliance. Approximately 80 percent of properties have 10 percent of their units inspected every three years, five percent of properties have 50 percent of their units inspected, and 15 percent of properties have all of their units inspected (see ©18). Under Bill 19-15, the starting point for inspections would be the entire stock of approximately 67,250 units, with the Director empowered to reduce the frequency of inspections (to triennially) for properties of landlords with a demonstrated history of compliance with applicable laws. The analysis in the FEIS concludes that it is likely that the number of units moved to triennial inspections would be minimal (see ©18-19). OMB concludes that moving to an annual inspection schedule for all units would require the addition of 97 additional FTEs in DHCA, at an annual cost of \$8,155,631, with an initial operating expense for vehicles, tablets, and phones of \$2,110,596.

Bill 19-15 also includes language that would require a landlord that is a frequent violator (more than twice in two consecutive years) to pay the costs of the next inspection. The Bill currently provides that this cost is “as determined by the Director.” Imposing this cost on landlords

¹⁴ In such a situation, a tenant would have six months to relocate – 90 days from notice of the rent increase (as would be required under this Bill), plus the three months of the month-to-month with a limited increase – before facing an increase of more than 10% above the rent offered for the new two-year term.

¹⁵ The Rental Satisfaction Survey compiled responses of 588 tenants in the County, and is organized into the following sections: (1) Rental Information; (2) Rental Unit and Landlord Satisfaction; (3) Tenant-Landlord Rights & Responsibilities; (4) Issues Affecting Tenants; and (5) Demographic Information. While somewhat dated, it does supply a useful perspective on a number of issues that Bill 19-15 seeks to address.

could offset the additional cost of inspections somewhat, and the Committee may wish to consider options in this regard.

Councilmember Elrich proposed to change the Bill's inspection requirements to remove the language requiring the inspection of all units, but would retain the annual inspection schedule. The effect of this change would allow DHCA to retain the discretion it currently has in deciding which units to inspect, but would require the inspections to be done each year rather than every three years. This change would significantly reduce the Bill's fiscal impact, but the Bill would still require roughly three times the number of inspections required under existing law. OMB provided a revised fiscal impact statement estimating the fiscal impact of the revised draft's inspection requirement (©33-41).¹⁶ OMB estimates that this schedule would require the addition of 19 FTEs in DHCA, at an annual cost of \$1,685,880, with initial operating expenses of \$504,027.

At the April 11 worksession, the Committee heard from stakeholders concerning this proposal. The Committee heard that many tenants' fear of retaliation by their landlords makes them reluctant to complain about problems in their unit. Under existing law, the Director *may* inspect upon a complaint or request from a landlord, but also has the discretion to inspect properties more frequently than the current triennial inspections; §29-22(b) provides that "the Director may inspect any other rental housing if the Director receives a complaint or a request from a landlord or tenant *or believes that the rental housing does not comply with all applicable laws.*" (emphasis supplied) While the discretion to inspect more frequently exists in the existing law, there is not a mandate that properties with chronic violations be subject to increased inspections.

Given the discretion that the Director already has, the issue is more one of resource allocation than of mandated County-wide inspections. In considering this issue, it is also worth considering that the TWG Report recommendation was that "buildings with ongoing maintenance problems," not necessarily all buildings, be moved to an annual inspection cycle. At the September 15 worksession, DHCA Director Snuggs discussed the way that the Department exercises the broad discretion it has under existing law, but did not offer any proposal for mandatory increased inspections.

Elrich "Surge" approach:

At the September 15 worksession, Councilmember Elrich proposed an inspection "surge" that would result in all apartment units being inspected in a two-year period.¹⁷ Councilmember Elrich set forth the rationale and process for his proposal in a memorandum to the County Executive on October 10 (see ©48-51). The surge would establish a baseline assessment of the state of rental housing in the County, and would provide the basis for determining which buildings or complexes should be subject to more frequent inspections.

Under the surge proposal, County-employed inspectors would be supplemented with contract hires, and over a two-year period, would inspect every apartment unit in the County, beginning with the oldest buildings and progressing based on age to the newest. Uniform training

¹⁶ A revised Economic Impact statement on Bill 19-15 was provided on June 24, 2016. See ©42-47.

¹⁷ See https://www.washingtonpost.com/local/md-politics/in-aftermath-of-fatal-flower-branch-fire-montgomery-considers-surge-in-building-inspections/2016/09/28/3174e326-84cf-11e6-a3ef-f35afb41797f_story.html

and inspections would be employed, including a standard checklist to allow year-to-year comparison of inspection results.

The results of the surge would allow the County to determine the number of permanent inspectors necessary to maintain the appropriate inspection schedule. The surge would also likely have the effect of generally improving the condition of the County's rental housing stock through the increased inspections and repairs ordered during that period. Councilmember Elrich proposes to fund the surge by: (1) reclaiming the approximately \$1 million of revenue generated from the per-unit license fees that was not used to fund inspections; and (2) a temporary increase in the licensing fee during the two years of the surge.

The precise fiscal impact of a surge is hard to determine with precision, but it would appear that the cost would be less than half of the estimated \$8 million cost for annual inspections of every unit. Exempting newer units from the surge would lower the cost, and extending the proposed two-year timeline to three or four years would spread the expense. DHCA or OMB may be able to provide some insight on the cost of implementing a surge proposal over two or three years, and the savings that might be realized by exempting newer properties.

If the Council chooses to implement a "surge" approach to inspecting all rental units, staff has two specific recommendations:

1. Because the purpose of the surge is to establish a baseline so that the County has a clearer picture on the extent of the need for more frequent inspections than the current triennial regime, staff recommends not amending the *existing* law regarding inspections until after all units have been inspected; and
2. As mentioned above, staff believes that exempting newer properties from the surge would increase efficiency and avoid what should be unnecessary inspections, thereby reducing the cost of the surge. If properties receiving use and occupancy permits since January 1, 2015 are exempt from the surge, they should be subject to any triennial inspection required under existing law.

A surge as described in Councilmember Elrich's proposal could be conducted under the existing law. If the Council desires to legislatively mandate it, it could amend the Bill to include a new, uncodified, Section 2 that provides:

Sec. 2. Two-year inspection surge.

- (a) The Director must, by July 1, 2019, inspect each unit of rental housing for which a certificate of occupancy was issued before January 1, 2015.
- (b) The Director must provide to the Council, by January 15, 2017, a plan to inspect rental housing under subsection (a) that includes:
 - (1) a means of prioritizing inspections;
 - (2) standardized inspections for all units; and

(3) an estimate of the cost for conducting the inspections.

Hucker Amendments

On October 24, Councilmember Hucker circulated a memorandum and draft proposed amendments to the Bill’s provisions on inspections (©52-57). Councilmember Hucker’s proposal is intended to focus increased inspections on properties with more serious or more numerous violations, and would implement a tiered inspection schedule. Under this proposal, the existing triennial schedule would remain the default, but properties with serious health or safety violations – identified in the proposed amendment to include certain rodent or insect infestations, mold, and lack of working utilities – would be inspected annually. Properties with an average of more than two violations (of any sort) per unit inspected would also be subject to annual inspections. Biennial inspections would be mandated for properties with an average of at least one violation (of any sort) per unit inspected.

In addition to targeted increased inspections, Councilmember Hucker’s proposal would require DHCA to submit to the Executive and Council an annual report that identifies properties inspected in the past year and to be inspected in the coming year, as well as giving the status of any incomplete inspections. Also, landlords subject to annual inspections under the proposal would be required to provide DHCA with quarterly reports on tenant complaints.

Councilmember Hucker’s proposal should provide increased efficiency over an across-the-board increase in inspections Countywide. Staff believes that if the Council is going to mandate increased inspections, these inspections should be required of “problem” properties based on the severity or number of violations, or some combination. It is unclear whether its increased-inspection provisions proposed by Councilmember Hucker would, despite being targeted toward properties with specific types and quantity of violations, effectively impose a Countywide biennial or annual inspection schedule. DHCA should be able to inform the Committee as to the practical impact of the proposal, and may be able to offer advice on how to more effectively target “problem” properties, if necessary.

This packet contains:	<u>Circle #</u>
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Bill No. 19-15
Concerning: Landlord –Tenant Relations
– Licensing of Rental Housing –
Landlord-Tenant Obligations
Revised: 09/15/2015 Draft No. 9
Introduced: April 21, 2015
Expires: October 21, 2016
Enacted: _____
Executive: _____
Effective: _____
Sunset Date: None
Ch. _____, Laws of Mont. Co. _____

COUNTY COUNCIL FOR MONTGOMERY COUNTY, MARYLAND

Lead Sponsor: Councilmember Elrich
Co-Sponsor: Councilmember Navarro

AN ACT to:

- (1) provide for annual inspection of certain residential rental properties;
- (2) require the use of a standard form lease and applicable optional provisions for certain residential rental properties;
- (3) require the publication of certain information related to rental housing;
- (4) require the Department of Housing and Community Affairs to review certain rent increases;
- (5) provide for certain remedies to be awarded by the Commission on Landlord-Tenant Affairs;
- (6) provide certain rights to tenants facing rent increases; and
- (7) generally amend the law related to landlord-tenant relations.

By amending

Montgomery County Code
Chapter 29, Landlord – Tenant Relations
Sections 29-6, 29-22, 29-27, 29-28, 29-30, 29-31, 29-33, 29-47, 29-51, 29-53, and 29-54

By adding

Montgomery County Code
Chapter 29, Landlord – Tenant Relations
[[Sections]] Section 29-55 [[and 29-56]]

Boldface	<i>Heading or defined term.</i>
<u>Underlining</u>	<i>Added to existing law by original bill.</i>
[Single boldface brackets]	<i>Deleted from existing law by original bill.</i>
<u>Double underlining</u>	<i>Added by amendment.</i>
[[Double boldface brackets]]	<i>Deleted from existing law or the bill by amendment.</i>
* * *	<i>Existing law unaffected by bill.</i>

The County Council for Montgomery County, Maryland approves the following Act:

29 **29-22. Inspection of rental housing.**

- 30 (a) [The] Except as provided in this Section, the Director must inspect all
 31 rental housing consisting of two or more dwelling units, including each
 32 apartment complex and personal living quarters building licensed as
 33 rental housing, at least once [every three years] each year to determine if
 34 it complies with all applicable laws. [The Director may inspect an
 35 apartment complex or personal living quarters building more often than
 36 the triennial inspection.]
- 37 (b) If the Director finds that a landlord of licensed rental housing has a
 38 demonstrated history of compliance with applicable laws over the most
 39 recent three years, the Director may thereafter inspect the licensed rental
 40 housing once every three years.
- 41 (c) The Director may inspect any other rental housing if the Director receives
 42 a complaint or a request from a landlord or tenant or believes that the
 43 rental housing does not comply with all applicable laws.
- 44 ~~[(c)]~~ (d) As a condition of receiving a license under this Chapter, a landlord
 45 must agree to:
- 46 (1) allow access to the Department for any inspection required under
 47 this Chapter or Chapter 26; and
- 48 (2) notify any affected tenant whose unit requires inspection at least
 49 72 hours in advance of [[the]] a scheduled inspection under
 50 subsection (a) of this Section.
- 51 ~~[(d)]~~ (e) If an inspection indicates that any rental housing does not comply
 52 with all applicable laws, the Director may revoke the license or take other
 53 remedial action under Section 29-25.
- 54 (f) A landlord of licensed rental housing [[found in]] notified after initial
 55 inspection of a violation of applicable laws [[more than twice in two
 56 consecutive years]] must pay the cost of the [[next inspection]] third, and

57 subsequent inspections, as [[determined by the Director]] as set in
 58 regulation, if the violation is not corrected by the second inspection.

59 * * *

60 **29-27. Contents of lease.**

61 [Each] [[A landlord must use the standard form lease]] [[and any appropriate
 62 model optional provisions]] [[furnished by the Director for each]] Each lease for rental
 63 housing located in the County [[. Each lease]] must:

64 * * *

65 (t) [[Allow the tenant to rescind the lease within two days after signing the
 66 lease.

67 (u)]] Allow the tenant to convert a one-year lease to a two-year lease within 30
 68 days after signing the lease, unless the one-year lease was offered by the
 69 landlord consistent with subsection 29-28(c).

70 [[v)]](u) Notify the tenant that:

71 (1) general information and assistance is available from the
 72 Department regarding:

73 (A) questions about any addenda to the lease; and

74 (B) evictions [[are available from the Department.]]; and

75 (2) the tenant is entitled to a hard copy of the Landlord-Tenant
 76 Handbook as required under subsection 29-28(f) and that the
 77 Landlord-Tenant Handbook is available on the County website.

78 (v) Contain a plain language summary of tenant rights and responsibilities,
 79 in a form established by the Executive by method (2) regulation that
 80 includes, at a minimum:

81 (1) the term of the lease;

82 (2) the amount of the rent;

83 (3) the date on which the rent is due;

84 (4) the tenant's responsibility, if any, for utility costs:

113 Before signing this lease, the tenant confirms that (initial and date
 114 one option):

115 (A) The landlord offered me a [2] two-year lease term and I
 116 accepted it.

117 (B) The landlord offered me a [2] two-year lease term but I
 118 rejected it.

119 (C) The landlord gave me a statement:
 120 (i) explaining why the landlord had reasonable cause not
 121 to offer me a [2] two-year lease term; and
 122 (ii) telling me that I can challenge the landlord's action
 123 by filing a complaint with the Montgomery County
 124 Department of Housing and Community Affairs.

125 * * *

126 (f) At the beginning of a lease term, each landlord must provide each tenant
 127 with a copy of the Landlord-Tenant Handbook [[furnished by the
 128 Director,]] unless the tenant signs a statement declining a hard copy and
 129 accepting referral to the Landlord-Tenant Handbook maintained on the
 130 County website.

131 (g) Unless the tenant is in breach of the lease, if a landlord does not intend to
 132 offer an existing tenant a renewed lease term, the landlord must give the
 133 tenant 60 days' notice of the landlord's intent to terminate tenancy at the
 134 lease expiration.

135 * * *

136 **29-30. Obligations of landlords.**

137 (a) Each landlord must reasonably provide for the maintenance of the health,
 138 safety, and welfare of all tenants and all individuals properly on the
 139 premises of rental housing. As part of this general obligation, each
 140 landlord must:

* * *

141
 142 (7) For each unit in a building constructed before July 1, 1978, and for
 143 which units are not individually metered, provide the tenant with
 144 all information required under the Public Utilities Article of the
 145 Maryland Code and applicable COMAR provisions governing:

146 (A) electric and gas submeters; and

147 (B) energy allocation systems.

148 (8) Display in in the lobby, vestibule, rental office, or other prominent
 149 public place on the premises, a sign in a form approved by the
 150 Director that includes information in English, Spanish, French,
 151 Chinese, Korean, Vietnamese, and other languages as determined
 152 necessary by the Director, about:

153 (A) filing a complaint under this Chapter; and

154 (B) the retaliatory practices prohibited under this Chapter.

* * *

156 **29-31. Landlord notice requirements.**

- 157 (a) Each landlord of an apartment complex in the County must:
- 158 (1) post [of] a durable notice in an accessible, conspicuous and
- 159 convenient place in each building to which the notice applies, or
- 160 (2) distribute [of] the notice directly to all tenants.

161 The notice must contain the name or title and telephone number of at least

162 one responsible representative of the building management who may be

163 reached at all times in an emergency.

* * *

165 **29-33. Rights of tenants generally.**

- 166 (a) Tenants have the right to self-organization; to form, join, meet, or assist
- 167 one another within or without tenant organizations; to meet and confer
- 168 through representatives of their own choosing with landlords; to engage

169 in other concerted activities for the purpose of mutual aid and protection;
170 and to refrain from any such activity.

171 (b) Tenants and tenant organizations have the right of free assembly in the
172 meeting rooms and other areas suitable for meetings within rental housing
173 during reasonable hours and upon reasonable notice to the landlord to
174 conduct tenant organization meetings. A landlord must not charge a
175 tenant organization a fee for the first meeting of each month held to
176 discuss landlord-tenant issues, but ~~[[The]]~~ the landlord may charge a
177 reasonable fee for ~~[[the use]]~~ other uses of the meeting rooms or common
178 areas~~[[,]]~~, ~~[[but the]]~~ The charge must not exceed the regular schedule of
179 fees for the facility to other groups. The landlord may also impose
180 reasonable terms and conditions on the use of the meeting rooms or
181 common areas if those terms and conditions do not undermine the
182 purposes of this Section.

183 (c) Tenants and resident tenant organizations have the right to distribute
184 freely and post in centrally located areas of rental housing literature
185 concerning landlord-tenant issues if the origin of the literature is properly
186 identified.

187 (d) Tenant organizations may file complaints under any provision of this
188 Chapter in a representative capacity on behalf of those tenants who have
189 authorized representation. Nothing in this Chapter permits any tenants'
190 organization to represent exclusively any tenant or class of tenants unless
191 specifically authorized to do so.

192 * * *

193 **29-47. Commission action when violation found.**

194 * * *

- 195 (b) If the Commission or panel finds that a landlord has caused a defective
196 tenancy, it may award each party to the complaint one or more of the
197 following remedies:
- 198 (1) Immediate termination of the lease, and relief from any future
199 obligations under the terms of the lease;
 - 200 (2) Return of the party's security deposit or any part of the deposit that
201 the landlord has wrongfully withheld;
 - 202 (3) An award under Section 29-10(b) of up to three times the amount
203 of any security deposit that the landlord has wrongfully withheld.
204 When making this award, the Commission must consider the
205 egregiousness of the landlord's conduct in wrongfully withholding
206 all or part of the deposit, whether the landlord acted in good faith,
207 and any prior history by the landlord of wrongful withholding of
208 security deposits;
 - 209 (4) Return of all or part of any rent already paid to the landlord after
210 the landlord was notified of the condition;
 - 211 (5) An award of damages sustained by the tenant as a result of the
212 defective tenancy, limited to the actual damage or loss incurred by
213 the tenant. The award must not exceed \$2,500 per affected
214 dwelling unit.
 - 215 (6) A reasonable expenditure to obtain temporary substitute rental
216 housing in the area.
 - 217 (7) An order permitting a tenant to correct the condition that
218 constitutes the defective tenancy and abating the tenant's rent in an
219 amount equal to the reasonable cost incurred by the tenant;
 - 220 (8) After a retaliatory or illegal eviction as defined in Section 29-32,
221 reasonable attorney's fees incurred by the affected tenant in

222 defense of the retaliatory or illegal eviction. The award must not
 223 exceed \$1,000.00.

224 * * *

225 **29-51. Rental housing data collection.**

226 (a) The County Executive must establish procedures to collect and analyze
 227 housing data for rental dwelling units in the County, and must make
 228 every effort to centralize the data collection functions to minimize the
 229 burden for landlords.

230 (b) The reporting process is mandatory for landlords of licensed rental
 231 housing, including new dwelling units as they come on the market and
 232 all vacant units.

233 (c) The data [collection frequency] must be [on an annual basis] collected
 234 annually.

235 (d) The Director must use a survey form for collecting data designed to
 236 minimize the repeated reporting of unchanged information, while
 237 maintaining an accurate data base.

238 (e) The housing data collected must be used to [ascertain] measure the
 239 supply and availability of rental housing, as well as other operating
 240 characteristics. Each landlord must provide the following [information
 241 as requested by] to the County:

- 242 (1) The location of [the] each rental facility, including the zip code;
- 243 (2) Structure type;
- 244 (3) Year built;
- 245 (4) Distribution of units by standard bedroom sizes;
- 246 (5) The number of units by bedroom size that were re-rented during
 247 the month;
- 248 (6) The number of vacant days applicable to those units;
- 249 (7) The rent charged for each rental unit;

250 (8) The rent charged for each re-rented unit before vacancy; and

251 (9) The new turnover rent charged for each re-rented unit.

252 * * *

253 (i) The Director is primarily responsible for controlling rental housing data
 254 surveys for the County. The Director must share this information with
 255 other governmental agencies that need it without invading individual
 256 privacy. In this regard, the Director must coordinate survey activities
 257 with other County departments, and make available to the departments
 258 the results of all surveys in accordance with [executive] applicable
 259 procedure.

260 (j) The Director must publish, unless the publication is prohibited under
 261 State law, the information collected in the rental housing data survey
 262 on the County website, including a table listing all rental housing
 263 consisting of two or more dwelling units [[and the average rent increase
 264 for each unit]] by unit type and building type. [[by the following
 265 categories:

266 (1) 100 percent or less of the applicable rent increase guideline;

267 (2) greater than 100 percent, up to 125 percent of the applicable rent
 268 increase guideline;

269 (3) greater than 125 percent, up to 150 percent of the applicable rent
 270 increase guideline; and

271 (4) greater than 150 percent of the applicable rent increase
 272 guideline.]]

273 (k) Any landlord who violates any provision of this Section is liable for
 274 payment of a civil penalty in an amount not to exceed \$1,000 for each
 275 violation.

276 **29-53. Voluntary rent guidelines; review of rent increases.**

- 277 (a) The County Executive must issue annual voluntary rent increase
 278 guidelines not later than March 1 of each year. The Executive must
 279 publish the guidelines in the County Register and on the County
 280 website.
- 281 (b) The guidelines must be based on the increase or decrease in the
 282 [residential rent component of the] residential rent component of the
 283 Consumer Price Index for all urban consumers for the Washington-
 284 Baltimore metropolitan area, or any successor index, for the preceding
 285 calendar year, unless an alternative standard better reflecting the costs
 286 of rental housing in the County is established by regulation.
- 287 (c) The Department should encourage landlords to hold rent increases at
 288 the lowest level possible. The Department may review any rent
 289 increase that appears to be excessive and encourage the landlord to
 290 reduce, modify, or postpone the increase. [[The Department must
 291 review all rent increases that are more than 100 percent of the
 292 applicable rent increase guideline issued under subsection (a) to
 293 recognize patterns of increases that particularly harm tenants.]]

294 **29-54. Rent adjustments; notice requirements.**

- 295 (a) A landlord must not increase the rent until [[at least two]] [2] [[months]]
 296 90 days after the landlord gives the tenant written notice of the increase.
 297 [[A landlord must give the tenant at least three months written notice
 298 before an increase of more than 100 percent of the rent increase
 299 guidelines.]] A landlord must not impose more than one rent increase
 300 on a tenant in any 12-month period. Each written rent increase notice
 301 must contain the following information:
- 302 (1) The amount of monthly rent immediately preceding the effective
 303 date of the proposed increase (old rent), the amount of monthly

304 rent proposed immediately after the rent increase takes effect
 305 (new rent), and the percentage increase of monthly rent.

- 306 (2) The effective date of the proposed increase.
- 307 (3) The applicable rent increase guideline issued under Section 29-
 308 53.
- 309 (4) A notice that the tenant may ask the Department to review any
 310 rent increase that the tenant considers excessive.
- 311 (5) Other information that the landlord deems useful in explaining
 312 the rent increase.

313 An otherwise valid notice of a rent increase is not invalid because the
 314 notice contained an incorrect rent increase guideline number if the
 315 landlord reasonably believed that the number was correct.

316 * * *

317 **29-55. [[Rights of tenants facing rent increases.**

- 318 (a) A tenant may ask the Department to confirm that a rent increase
 319 complies with this Article.
- 320 (b) When a rent increase exceeds the applicable guideline, a tenant:
 - 321 (1) may continue occupancy for up to two months after the lease
 322 term expires on a month-to-month basis at the current pre-
 323 increase rent; and
 - 324 (2) must give at least 15 days' notice to the landlord before vacating
 325 the premises.

326 **29-56.]] Rent surcharges prohibited.**

327 A landlord must not charge more than the rent [[charged]] offered for the
 328 [[prior]] renewed lease term when a tenant continues occupancy on a month-to-
 329 month basis.

330 **[Sec. 29-55] Sec. [[29-57]] 29-56 – 29-65.**

331 **Sec. 2. Transition.**

332 The ~~[[standard form lease]]~~ plain language summary required under Section
333 29-27, as amended in Section 1, must be ~~[[used for]]~~ included with all leases entered
334 into or renewed after the effective date of the regulation establishing the ~~[[standard~~
335 form lease]] form of the plain language summary.

336 *Approved:*

337

Nancy Floreen, President, County Council

Date

338 *Approved:*

339

Isiah Leggett, County Executive

Date

340 *This is a correct copy of Council action.*

341

Linda M. Lauer, Clerk of the Council

Date

LEGISLATIVE REQUEST REPORT

Bill 19-15

Landlord – Tenant Relations - Licensing of Rental Housing – Landlord-Tenant Obligations

DESCRIPTION:	Bill 19-15 would make several changes to the County's landlord-tenant law, principally aimed at enhancing the existing rights of tenants. The amendments fit generally into three categories: (1) leases and landlord-tenant obligations; (2) licensing and data collection; and (3) rent adjustments.
PROBLEM:	Tenants often face uncertainties as to their responsibilities and rights under rental housing leases, and often struggle with rent increases that are above the voluntary guidelines established under the current law; the current programs for inspection of rental housing and publication of rental housing data are inadequate.
GOALS AND OBJECTIVES:	Improve access to quality rental housing and ensure a better understanding of landlord and tenant obligations under leases; protect tenants facing large rent increases.
COORDINATION:	Department of Housing and Community Affairs
FISCAL IMPACT:	To be requested.
ECONOMIC IMPACT:	To be requested.
EVALUATION:	To be requested.
EXPERIENCE ELSEWHERE:	To be researched.
SOURCE OF INFORMATION:	Josh Hamlin, Legislative Attorney, 240-777-7892
APPLICATION WITHIN MUNICIPALITIES:	To be researched.
PENALTIES:	Class A violation

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APPLICABILITY OF CHAPTER 29, Landlord-Tenant Relations to Municipalities

Source: Montgomery County Code, Appendix F.

County Laws Applicable to Municipalities

Town of Barnesville	no
Town of Brookville	yes
Chevy Chase Village	no
Chevy Chase View	yes
Chevy Chase Sec. 3	yes
Town of Chevy Chase	yes
Chevy Chase Sec. 5	yes
City of Gaithersburg	no
Town of Garrett Park	no
Town of Glen Echo	yes
Town of Kensington	yes
Town of Laytonsville	no
Village of Martin's Addition	yes
Village of North Chevy Chase	yes
Town of Poolesville	no
City of Rockville	no
Town of Somerset	yes
City of Takoma Park	no
Town of Washington Grove	yes



ROCKVILLE, MARYLAND

MEMORANDUM

June 19, 2015

TO: George Leventhal, President, County Council

FROM: Jennifer A. Hughes, Director, Office of Management and Budget
FOR Joseph F. Beach, Director, Department of Finance *JRH*

SUBJECT: FEIS for Bill 19-15 Landlord - Tenant Relations- Licensing of Rental Housing

Please find attached the fiscal and economic impact statements for the above-referenced legislation.

JAH:fz

cc: Bonnie Kirkland, Assistant Chief Administrative Officer
Lisa Austin, Offices of the County Executive
Joy Nurmi, Special Assistant to the County Executive
Patrick Lacefield, Director, Public Information Office
Joseph F. Beach, Director, Department of Finance
Clarence J. Snuggs, Director, Department of Housing and Community Affairs
Alex Espinosa, Office of Management and Budget
Jenny Bryant, Office of Management and Budget
Felicia Zhang, Office of Management and Budget
Naeem Mia, Office of Management and Budget

Fiscal Impact Statement
Bill 19-15
Landlord-Tenant Relations – Licensing of Rental Housing – Landlord Tenant Obligations

1. Legislative Summary

Bill 19-15 provides for annual inspection of certain residential rental properties, requires the use of a standard form lease, requires publication of certain information related to rental housing, requires DHCA to review rent increases, provides for remedies to be awarded by the Commission on Landlord – Tenant Affairs, provides certain rights to tenants facing rent increases, and generally amends the law related to landlord-tenant relations.

2. An estimate of changes in County revenues and expenditures regardless of whether the revenues or expenditures are assumed in the recommended or approved budget. Includes source of information, assumptions, and methodologies used.

There is no estimated change in County revenues due to Bill 19-15. While the bill would require reimbursement of inspection costs under certain circumstances, that is too speculative to estimate.

Bill 19-15 impacts expenditures in three areas: Code Enforcement, publication of the Landlord Tenant Handbook, and Licensing and Registration (see below).

- Code Enforcement (Section 29-22)
 - There are approximately 67,250 multifamily units in Montgomery County licensed by DHCA. This does not include units in the Cities of Rockville, Gaithersburg or Takoma Park. These units are inspected either by the local jurisdiction or via DHCA through a contractual agreement.
 - Based on our current sampling technique (consistent with Montgomery County Code, Chapter 29) to meet the current triennial inspection requirement, approximately 5,700 units of multifamily housing units are required to be inspected on an annual basis. Under the current requirement properties with a history of noncompliance are assigned a higher percentage of units to be inspected. Approximately 80 percent of properties receiving triennial inspections have 10 percent of units inspected, 5 percent of properties have 50 percent of units inspected, and 15 percent of properties have 100 percent of the units inspected.
 - The proposed bill requires annual inspections of all units. After the most recent three years of demonstrated compliance, annual inspections may revert back to being triennially inspected. For purposes of this fiscal impact statement, it is assumed that “in-compliance” relates to a property being free from any and all violations. Since each unit would be inspected annually, it

is unlikely a property would be free from any and all violations for all of its units over three years. Thus, it is more likely that all multifamily properties would continue to require annual inspections. Therefore, for purposes of this fiscal impact statement, annual inspections of all multifamily units are assumed.

- The average number of units inspected by a Code Enforcement Inspector is approximately 740 per year. The total number of new units required to be inspected under Bill 19-15 is 60,612 (67,500 total multi-family units - 6,888 number of units inspected in FY14).
- To increase the requirement of multifamily inspections from the calculated minimum of 5,700 units to 67,500 units annually, the Department of Housing and Community Affairs (DHCA) would need a total of 97 additional FTEs.
 - This includes 82 Housing Code Enforcement Inspectors, 8 Program Manager II's and 5 Principal Administrative Aides. DHCA would also need the associated operating expenses associated with vehicles, tablets, mobile phones and general operating expenses for the Code Enforcement staff.
 - Total annual personnel and operating cost is estimated to be \$8,155,631.
 - Total one-time costs (for 82 vehicles, tablets and mobile phones) are estimated to be \$2,110,596.
- Total estimated full year Code Enforcement cost is \$10,266,227
- DHCA estimates that two IT staff positions are needed to provide technology operational and maintenance support for the expanded Code Enforcement activities. The cost is estimated at \$187,670.
- Below are the detailed assumptions used to formulate the cost estimates:

Operating Costs per Unit		
Vehicles		
1 x cost (Sedans)	Annual Cost	Comments
24,900.00	-	acquisition
	1,739.00	maintenance
	1,410.00	fuel
	3,943.00	annual replacement
	114.00	monthly overhead
24,900.00	7,206.00	Total Vehicle Costs
Technology Devices and Telecommunications		
1x cost	Annual Cost	Comments
599.00	-	tablet acquisition
89.99	-	tablet case
99.99	-	mobile phone acquisition
49.99	-	mobile phone case
-	315.00	tablet service (\$26.25/mo)
-	628.68	mobile service (\$52.39/mo)
838.97	943.68	Total
Total One-Time Cost	Total Annual Cost	
25,738.97	8,149.68	

Position / Grade	FTE Request	Code OE	General OE**	*Per FTE Total	Total Annual Cost	Total 1x Cost (Car + IT)
Grade 19 - Hsg. Code Insp.	82.0	8,150	1,000	85,973	7,049,776	2,110,596
Grade 25 - PMII	8.0	-	1,000	99,009	792,071	-
Grade 13 - PAA	5.0	-	1,000	62,757	313,784	-
	95.00			Total Cost:	8,155,631	2,110,596

Position / Grade	FTE Request	Code OE	General OE**	*Per FTE Total	Total Annual Cost
Grade 19 - IT Tech	1.0	-	1,000	77,823	77,823
Grade 28 - Sr. IT Spec	1.0	-	1,000	111,847	111,847
				Total Cost:	189,670
			TOTAL	97 FTEs	8,345,301

*Salary costs are assumed at minimum for the grade level x 1.25 percent, flat insurance rate, and a total of 15.7 percent for retirement and FICA costs
 ***General OE* includes office supplies, IT supplies/licenses, printing, production, mailing and other misc OE items

- Landlord Tenant Handbook Publication (Sections 29-6(f) and 29-28(f))
 1. These sections require providing a Landlord Tenant handbook to every tenant.
 2. There are approximately 97,500 rental units including multifamily, single family, condominium and accessory apartments. The actual number of tenants is unknown so the cost to provide tenant handbooks is based on the number of rental units.
 3. The average cost to produce one book is \$1.00 and \$1.15 to distribute by mail.
 4. Total one-time cost is approximately \$209,625 to provide one handbook per rental unit.
 5. Based on the DHCA 2014 Rental Housing Survey, there is approximately a 23.4 percent rental unit turnover rate annually. Therefore, the ongoing cost to provide Landlord Tenant Handbooks for the 22,815 units (97,500 x 23.4%) represented as turnover is \$49,052 including the cost to distribute the handbook.

- Licensing and Registration IT Improvements (Section 29-31(j))
 - The Licensing and Registration section would be required to add certain reports to its current IT system and perform data analysis for each of the 67,500 multifamily units on an annual basis.
 - Licensing staff would be responsible to review multifamily unit rent increases greater than specified amounts/percentages and recognize patterns of increases that may particularly harm tenants.
 - This would require updates to the current database, new reporting capabilities, and staff time to prepare and analyze these reports.
 - In the year that the bill is implemented, DHCA estimates it will take approximately 180 hours of licensing and registration staff time (180 hrs. x \$45 = \$8,100) and 30 hours of IT staff time (30 hrs. x \$63 = \$1,890). Total implementation cost is estimated at \$9,900.
 - Once the bill is implemented, DHCA expects that there will be less time required by program staff but more time required by IT staff to maintain and update the database. It is estimated that it will take approximately 110 hours of licensing and registration staff time (110 hrs. x \$45 = \$4,950) and 90 hours of IT staff time (90 hrs. x \$63 = \$5,670). Therefore, the ongoing staff cost is estimated at \$10,620.

3. Revenue and expenditure estimates covering at least the next 6 fiscal years.

There is no estimated change to County revenues.

One-Time Cost

Vehicles, tablets and mobile phones	2,110,596
Production and distribution of the handbook	209,625
Staff time to implement reporting and analysis tools	9,990

Total One-Time Cost 2,330,211

Summary of Expenses			
	Year 1	Year 2-6	Total
Code Enforcement	10,266,227	40,778,153	51,044,380
IT	189,670	948,350	1,138,020
Landlord Tenant	209,625	245,260	454,885
Licensing and Registration	9,990	49,950	59,940
Total	10,675,512	42,021,713	52,697,225

4. An actuarial analysis through the entire amortization period for each bill that would affect retiree pension or group insurance costs.

Not Applicable

5. An estimate of expenditures related to County's information technology (IT) systems, including Enterprise Resource Planning (ERP) systems.

Bill 19-15 would not impact the County's Enterprise IT systems, but it would affect DHCA's IT infrastructure. DHCA's IT systems are programmed in ASP.net. It is expected that modifications to the current system would be done in-house and would not require purchasing additional IT hardware or software; however, DHCA anticipates a need for two additional IT FTEs (see above in #2).

6. Later actions that may affect future revenue and expenditures if the bill authorizes future spending.

The bill does not authorize future spending.

7. An estimate of the staff time needed to implement the bill.

Additional FTEs are required to implement bill 19-15. For the Code Enforcement section there is a need to add 95 FTEs. This includes FTEs for inspectors, program managers and administrative aides (see above in #2). In the year that the bill is implemented, DHCA estimates it will take approximately 180 hours of licensing and registration staff time to perform data analysis for each of the 67,500 multifamily units, review multifamily unit rent increases greater than specified amounts/percentages and recognize patterns of increases that may particularly have an impact on tenants; and 30 hours of IT staff time to update the current database, and develop new reporting capabilities.

Once the bill is implemented, DHCA expects that there will be less time required by program staff but more time required by IT staff to maintain and update the database. It is estimated that it will take approximately 110 hours of licensing and registration staff time and 90 hours of IT staff time.

8. An explanation of how the addition of new staff responsibilities would affect other duties.

This would affect the Licensing and Registration section. These tasks would require additional temporary support while current staff performs the necessary analysis.

9. An estimate of costs when an additional appropriation is needed.

DHCA would require \$10,675,512 for the staffing and associated costs listed above in the fiscal year the bill is enacted for implementation and \$8,404,973 per year, each year after implementation of the bill to cover ongoing costs.

10. A description of any variable that could affect revenue and cost estimates.

The fiscal impact statement assumes the bill requires annual inspections of all rental units. The total cost estimate may be different based on the percentage of units required to be inspected annually. It also assumes the Tenant handbook will be distributed by mail. Cost would be less if the handbook were distributed electronically.

11. Ranges of revenue or expenditures that are uncertain or difficult to project.

Not Applicable

12. If a bill is likely to have no fiscal impact, why that is the case.

Not Applicable

13. Other fiscal impacts or comments.

Not Applicable

14. The following contributed to and concurred with this analysis:

Clarence Snuggs, DHCA

Tim Goetzinger, DHCA

Francene Hill, DHCA

Rosie McCray-Moody, DHCA

Dan, McHugh, DHCA

Luann Korona, DHCA

Jennifer Bryant, OMB


Jennifer A. Hughes, Director
Office of Management and Budget

6/18/15
Date

Economic Impact Statement
Bill 19-15, Landlord – Tenant Relations – Licensing of Rental Housing –
Landlord-Tenant Obligations

Background:

This legislation would:

- Provide for annual inspection of certain residential rental properties,
- Require the use of a standard form lease and applicable optional provision for certain residential rental properties,
- Require the publication of certain information related to rental housing,
- Require the Department of Housing and Community Affairs (DHCA) to review certain rent increases,
- Provide for certain remedies to be awarded by the Commission on Landlord-Tenant Affairs, and
- Provide certain rights to tenants facing rent increases.

1. The sources of information, assumptions, and methodologies used.

Sources of information include:

- Department of Housing and Community Affairs (DHCA),
- Maryland-National Capital Park and Planning Commission - Montgomery County, MD Planning Department (Planning),
- Metropolitan Regional Information System, Inc. (MRIS),
- Greater Capital Area Association of Realtors (GCAAR),
- American Community Survey (ACS), U.S. Census Bureau,
- Bureau of Labor Statistics (BLS), U.S. Department of Labor,
- National Multifamily Housing Council/National Apartment Association (NMHC/NAA),
- "Rent Control: Do Economists Agree?" *Economic Journal Watch (EJW), A Journal of the American Institute for Economic Research*, Volume 6, Number 1, January 2009,
- "Time for Revisionism on Rent Control?" *Journal of Economic Perspectives*, Volume 9, Number 1, Winter 1995.

The economic impact statement will focus on the portions of Bill 19-15 that directly impact the economic performance of the local rental market such as:

- Additional costs incurred by the landlord as required under Bill 19-15,
- Permitting tenants to convert a one-year lease to a two-year lease within 30 days after signing the lease, and

Economic Impact Statement
Bill 19-15, Landlord – Tenant Relations – Licensing of Rental Housing –
Landlord-Tenant Obligations

- Rent increase guidelines based on the increase or decrease in the Consumer Price Index for all urban consumers (CPI-U) for the Baltimore-Washington Consolidated Metropolitan Statistical Area (CMSA).

Data provided by NMHC/NAA for the Eighth Congressional District (District) present the economic benefits of the apartment industry. Those benefits include:

- There are 125,100 residents in the District that live in apartments,
- The apartment industry in the District contributes \$2.7 billion to the local economy, and
- The number of jobs related to the apartment industry in the District is approximately 25,100.

Data from DHCA as reported in its study entitled *Rental Apartment Vacancy Report 2012* states:

- The countywide vacancy rate for all surveyed units (market and subsidized units) was 3.5 percent in 2012, the latest date for which data are available – a decrease of 0.2 percentage points from 3.7 percent in 2011 and a decrease of 1.8 percentage points from 4.3 percent in 2008,
- The vacancy rate in 2012 varied from a high of 3.9 percent for efficiency units to 1.0 percent for 4+ bedroom units,
- The countywide vacancy rate for market-rate units was 3.7 percent in 2012 – a decrease of 0.1 percentage point from 3.8 percent in 2011,
- The vacancy rate for market-rate units varied from a high of 4.0 percent for efficiency units to 1.7 percent for 4+ bedroom units,
- In 2012, the countywide turnover rate for market and subsidized units was 31.0 percent – 1.5 percentage points lower than the 32.5 percent in 2011, and
- The turnover rate for market and subsidized units varied from a high of 35.5 percent for efficiency units to a low of 17.7 percent for 4+ bedroom units.

DHCA also provided the following information, definitions, and data regarding the capitalization rates, return on cost, and cost of capital used by DHCA and the industry:

- Capitalization (“cap”) rates are used by the Maryland State Department of Assessments and Taxation (SDAT) to determine the value of the property by dividing the net income of a property by a “cap” rate,
- Appraisers, lenders, and investors are currently using “cap” rates for valuation of multifamily properties in Montgomery County between 4.00 and 6.00 percent.
- Return on cost (ROC) is an industry standard used by lenders and investors that is applied to the market value of new construction projects,

Economic Impact Statement
Bill 19-15, Landlord – Tenant Relations – Licensing of Rental Housing –
Landlord-Tenant Obligations

- Currently the threshold measure for ROC averages between 6.50 percent and 8.00 percent,
- Cost of capital or cost of debt or equity is a measure of profitability for a particular rental property,
- Currently, cost of capital seeks a return from 4.50 percent to 5.75 percent on a property,
- Return on equity and investment debt seeks a return from 8.00 percent to 15.00 percent, and
- Historically, the threshold measures for the “cap” rate, ROC, and equity investment debt exceed the rate of inflation (please see paragraph #2).

2. A description of any variable that could affect the economic impact estimates.

The variables that could affect the economic impact estimates are:

- The cost to the landlord for providing a copy of the landlord-tenant handbook developed by DHCA to a tenant,
- The inspection cost to the landlord if there is a violation of applicable laws more than twice in two consecutive years,
- The current rental prices for multi-family housing,
- The threshold rate for the capitalization rate, return on cost, and cost of capital, and return on equity and investment debt,
- The percent change in the CPI-U for the Washington-Baltimore CMSA,
- The number of the tenants who would convert a one-year lease to a two-year lease within 30 days after signing the lease, and
- Permitting tenants to extend for up to two months at the original lease amount when the lease renewal amount exceeds the rental increase guidelines

Under Bill 19-15, DHCA will develop and distribute a copy of the landlord-tenant handbook to landlords and require a landlord to provide a copy to a tenant upon request. Finance assumes that the cost to the landlord is determined by “production” costs and the number of tenants who request a copy. At this time, those costs are unknown, but those costs will affect the expenses incurred by the landlord and those costs are assumed not to be passed on to the tenant.

Bill 19-15 would require the landlord to pay the cost of inspection if the landlord violated applicable laws for two consecutive years. While such costs will vary from landlord to landlord, it will have an effect on the landlord’s income assuming the landlord’s cost avoidance to complying with applicable laws is less than the cost of the inspection.

Data provided by MRIS and GCAAR show that rental prices increased from the first quarter of 2010 to the first quarter of 2015 as follows:

Economic Impact Statement
Bill 19-15, Landlord – Tenant Relations – Licensing of Rental Housing –
Landlord-Tenant Obligations

- Garden (1-4 floors): 11.90%
- Mid-Rise (5-8 floors): 34.70%
- Hi-Rise (9+ floors): 1.62%

Comparing those percent increases with the increase in the CPI-U of 9.01 percent over the same period, rent increases for both garden and mid-rise apartments exceeded the percent change in the CPI-U. Comparing the rent increases with the increase in the CPI's rental equivalent index of 14.97 percent, the only percent increase that exceeded that index occurred with mid-rise units.

However, by setting the proposed guidelines for rent increases to the CPI-U rather than the CPI rental equivalent would have resulted in a reduction in the rent increases for the garden and mid-rise units over the 2010 to 2015 period and have a negative impact on revenues received by landlords. While such restrictions would affect revenues to landlords, tenants would receive a positive economic benefit by restricting the increase in rental rates. Therefore, such restrictions regarding allowable rent increases would have a zero sum impact on the County's economy.

Bill 19-15 would allow a tenant to convert a one-year lease to a two-year lease within 30 days after signing the lease. Assuming that the monthly rent for the two-year lease would then be the same as for the initial one-year lease, the tenant would receive a positive economic benefit of maintaining the same monthly rent for a two-year period while the landlord would experience a negative economic benefit.

Planning provided data from the 2013 American Community Survey (ACS), U.S. Census Bureau that show the tenure of households that rent in Montgomery County. From that data, the percent of rental households who have "moved in 2010 or later" was 64.1 percent or an estimated 201,301 residents countywide. That percent steadily decreased to 0.1 percent for renters who "moved in 1969 or earlier." Therefore there are a larger percentage of renters who have recently moved into rental units in the County and are more likely to convert a one-year lease to a two-year lease.

Finally, Bill 19-15 allows a tenant to occupy the unit at the current rate for a maximum of two months after the term of the lease expires if the rent increase exceeds the applicable guideline. DHCA will publish the average rent increase for each unit under specific guidelines. If those guidelines are based on inflation, and since data in #2 indicate that for both garden and mid-rise units the rent increase is greater than the rate of inflation, while it is less than for high-rise units, it is uncertain at this time, what the economic cost to the landlord and the economic benefit to the tenant would be.

- 3. The Bill's positive or negative effect, if any on employment, spending, savings, investment, incomes, and property values in the County.**

Economic Impact Statement
Bill 19-15, Landlord – Tenant Relations – Licensing of Rental Housing –
Landlord-Tenant Obligations

Bill 19-15 would have a negative effect on landlord's business revenue through reduced allowable increases in monthly rents, additional expenditures incurred by providing a handbook to tenants requesting it, and costs for those inspections in violation of applicable laws. With the restriction on rents and the additional operating costs, those factors may have a negative impact on employment and economic contributions to the County's economy as presented by the data cited by NMHC/NHA.

The most significant impact to the rental housing market in Montgomery County is the provision to limit rent increases by the rate of inflation. Otherwise known as rental regulation or rent control, the National Multifamily Housing Council (NMHC) states that this provision could have a negative impact on new construction of rental housing, reduce property tax revenues through a reduction in the capitalization rates, reduce consumer mobility, cause a decline in the quality of housing stock, and reduce maintenance and repair. According to an article from EJW, the author states that "my reviews of the rent-control literature finds that economic research quite consistently and predominantly frowns on rent control." The author's findings covered both empirical and theoretical research on issues including housing availability, maintenance, and housing quality.

According to an article in the *Journal of Economic Perspectives*, the author states that "economists have been virtually unanimous in their opposition to rent control." He cites a survey conducted by the American Economic Association on its members and the overwhelming response (93.5%) agree with the statement that "ceiling on rents reduces the quantity and quality of housing available." However, the author proposes a revision to that survey which was conducted in 1992. He proposes an alternative economic model for judging the impacts of rent controls, and suggests that the housing market is imperfectly competitive rather than one that is perfectly competitive. As such, he suggests that under the "revised" market model "whether such controls (rents) are harmful or helpful depends on the particular package of regulations adopted, which is the outcome of the political process." He compares the current revisionist debate on rent controls to the revisionism "that has occurred concerning the effects of the minimum wage."

Data provided by DHCA suggest that capping the increase in monthly rents to the consumer price index could result in keeping those rates below the threshold return on cost and return on capital and below the current capitalization rate for property assessments. Regarding the effect on returns on cost and capital, capping rental rates to the rate of inflation may have a negative impact on investment in new rental housing construction.

Those potential negative effects on housing supply, the quality of housing stock, and business income and the threshold rates for property values and investment could be partially offset by positive impacts for tenants by restricting rent increases. It is uncertain without specificity of data if the negative effects experienced by the

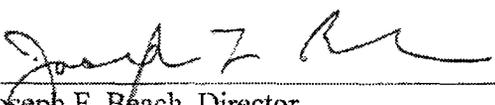
Economic Impact Statement
Bill 19-15, Landlord – Tenant Relations – Licensing of Rental Housing –
Landlord-Tenant Obligations

landlord and the rental market industry are identically offset by the positive economic benefits to the tenant. If such effects are not identically offset, that is, the costs to the landlords and rental market industry are greater than the benefits to the tenants, there would be a negative impact on property values, business income, investment and employment in the County. Also, if Bill 19-15 discourages investment in new rental property, it could have a negative impact on the portion of recordation tax revenues that are used to support rental assistance for the same residents affected by this legislation.

4. If a Bill is likely to have no economic impact, why is that the case

The subject legislation will have an economic impact on the County, however, as mentioned in paragraph #3, without specific data on the economic impacts to landlords and tenants, a quantitative measurement of the impact on savings, investment, employment and property values is not feasible.

5. The following contributed to or concurred with this analysis: David Platt, Mary Casciotti, and Rob Hagedoorn, Finance; and Lawrence Cager, DHCA.



Joseph F. Beach, Director
Department of Finance

6/4/15
Date



MONTGOMERY COUNTY COUNCIL
ROCKVILLE, MARYLAND

To: Members of the PHED Committee
From: Councilmember Marc Elrich
Date: July 23, 2015
Re: Bill 19-15, Landlord-Tenant Relations – Licensing of Rental Housing

I am writing in advance of committee consideration of my legislation, bill 19-15, regarding Landlord-tenant issues. After listening to comments from the public and the Department of Housing and Community Affairs, I want to clarify the intent of this legislation and reiterate that my goal with this legislation is to address some of the existing problems in rental housing, and I believe that many, if not all, of the concerns expressed can be successfully addressed.

Increased inspection schedules:

The Fiscal and Economic Impact Statement review concludes that this legislation would require every unit in the county be inspected, which would require hiring 95 new employees at an annual cost of more than \$8 million to inspect every single unit in the county. That is not my intent, and the legislation as drafted does not require that. Our current inspection process is too limited and is often complaint driven, which is not sufficient. In our many interactions with tenants across the county, we have heard from many who will not file complaints for fear of being labelled a “troublemaker” and facing retaliation. While retaliation is illegal, landlords could choose not to renew a lease and as long as they don’t offer comments on a tenants behavior, it is not retaliation. I also understand that the current definition of excessive violations may need adjusting, and I agree that we may need some rewording. I have been talking with people in the county, and I think that many of the issues can be addressed. I am confident that we can find a solution that improves the inspection process and does not require the hiring of anywhere near 95 new employees.

Addenda to leases:

Upon conversation with Department of Housing and Community Affairs (DHCA), I understand the concerns with the legislation as proposed. I would instead propose that any addenda must have specified language explaining to the perspective tenant that DHCA is available to provide additional information on these issues and provide contact information for DHCA.

Voluntary Rent Guidelines:

We have met with Montgomery Housing Partnership about their concerns about the proposed change to the VRG. We have given them some alternatives to review and are awaiting their comments. Again, I think we can find a successful conclusion. While the Consumer Price Index (CPI) may not adequately reflect changes in operating costs,

neither does the current reliance on the rental component of the CPI, which merely reflects the inflation in housing prices and has little to do with the costs of operating a building.

Continued occupancy beyond the lease date.

We understand that this provision needs to be reworded to be consistent with state law.

I am confident that these and other issues can be addressed in a manner that improves the current situation for tenants in a fair and reasonable manner.



ROCKVILLE, MARYLAND

MEMORANDUM

April 11, 2016

TO: Nancy Floreen, President, County Council

FROM: *Jennifer A. Hughes*
Jennifer A. Hughes, Director, Office of Management and Budget

SUBJECT: Revised FIS for Bill 19-15, Landlord-Tenant Relations -Licensing of Rental Housing – Landlord Tenant Obligations

Please find attached the fiscal impact statements for the above-referenced legislation.

JAH:fz

cc: Bonnie Kirkland, Assistant Chief Administrative Officer
Lisa Austin, Offices of the County Executive
Joy Nurmi, Special Assistant to the County Executive
Patrick Lacefield, Director, Public Information Office
Clarence J. Snuggs, Director, Department of Housing and Community Affairs
Jennifer Bryant, Office of Management and Budget
Alex Espinosa, Office of Management and Budget
Naeem Mia, Office of Management and Budget

**Fiscal Impact Statement
Bill 19-15**

Landlord-Tenant Relations – Licensing of Rental Housing – Landlord Tenant Obligations

1. Legislative Summary

Bill 19-15, Landlord – Tenant Relations – Licensing of Rental Housing – Landlord Tenant Obligations:

- provides for annual inspection of certain residential rental properties;
 - requires the use of a standard form lease for certain residential rental properties;
 - requires the publication of certain information related to rental housing;
 - requires the Department of Housing and Community Affairs to review certain rent increases;
 - provides for certain remedies to be awarded by the Commission on Landlord-Tenant Affairs;
 - provides certain rights to tenants facing rent increases; and
 - generally amends the law related to landlord-tenant relations.
2. An estimate of changes in County revenues and expenditures regardless of whether the revenues or expenditures are assumed in the recommended or approved budget. Includes source of information, assumptions, and methodologies used.

There is no estimated change in County revenues due to Bill 19-15. While Section 29-22(f) of the bill requires reimbursement of inspection costs under certain circumstances, the amount generated is too speculative to estimate.

Bill 19-15 impacts expenditures in four areas: Code Enforcement; publication; translation and dissemination of the Landlord Tenant Handbook and Standard Lease; Landlord Tenant Rent Increase Review; and Licensing and Registration (see below).

- Code Enforcement (Section 29-22)
 - There are approximately 69,000 multifamily units in Montgomery County licensed by DHCA. This does not include units in the Cities of Rockville, Gaithersburg or Takoma Park. These units are inspected either by the local jurisdiction or via DHCA through a contractual agreement.
 - Based on our current sampling technique (consistent with Montgomery County Code, Chapter 29) to meet the current triennial inspection requirement, approximately 5,865 units of multifamily housing units are required to be inspected on an annual basis. Under the current requirement properties with a history of noncompliance are assigned a higher percentage of units to be inspected. Approximately 80 percent of properties receiving triennial inspections have 10 percent of units inspected, 5 percent of properties have 50 percent of units inspected, and 15 percent of properties have 100 percent of the units inspected.

- The proposed bill requires annual inspections of each property. After the most recent three years of demonstrated compliance, annual inspections may revert back to being triennially inspected. For purposes of this fiscal impact statement, it is assumed that “in-compliance” relates to a property being free from any and all violations. Since each property would be inspected annually, it is unlikely a property would be free from any and all violations for three years. Thus, it is more likely that all multifamily properties would continue to require annual inspections. Therefore, for purposes of this fiscal impact statement, annual inspections of all multifamily properties are assumed.
- The average number of units inspected by a Code Enforcement Inspector is approximately 700 per year. The total number of new units required to be inspected under Bill 19-15 is 11,199 (17,595 multifamily units – 6,396 number of units inspected in FY15).
- To increase the requirement of multifamily inspections from the calculated minimum of 5,865 units to 17,595 units annually, the Department of Housing and Community Affairs (DHCA) would need a total of 19 additional FTEs.
 - This includes 16 Housing Code Enforcement Inspectors, 1 Program Manager II, 1 Principal Administrative Aide, and 1 Information Technology Technician. DHCA would also need the associated operating expenses for vehicles, workstations, tablets, mobile phones and general operating expenses for the Code Enforcement staff.
 - Total annual personnel and operating cost is estimated to be \$1,685,880.
 - Total initial operating expenses (for vehicles, workstations, tablets and mobile phones) are estimated to be \$504,027.
- Total estimated full year Code Enforcement cost of the legislation is \$2,189,907
- Below are the detailed assumptions used to formulate the cost estimates:

Operating Costs per Unit		
Vehicles		
1 x cost (Sedans)	Annual Cost	Comments
24,900.00	-	acquisition
	1,739.00	maintenance
	1,410.00	fuel
	3,943.00	annual replacement
	114.00	monthly overhead
24,900.00	7,206.00	Total Vehicle Costs
Technology Devices, Telecommunications and Workstations		
1x cost	Annual Cost	Comments
599.00	-	tablet acquisition
89.99	-	tablet case
99.99	-	mobile phone acquisition
49.99	-	mobile phone case
3,454.00		workstation
-	315.00	tablet service (\$26.25/mo)
-	628.68	mobile phone service (\$52.39/mo)
4,292.97	943.68	Total
29,192.97	8,149.68	
Total One- Time Cost	Total Annual Cost	

Position	Grade	FTE Request	OE	General OE*	Per FTE Total	Total Annual Cost	Total 1x Cost (Car + IT + Workstations)
Hsg. Code Insp	Grade 19	16.00	8,150	2,000	89,210	1,427,363	467,088
PM II	Grade 25	1.00	8,150	2,000	110,819	110,819	29,193
IT Tech	Grade 19	1.00	944	2,000	82,004	82,004	4,293
PAA	Grade 13	1.00	-	2,000	65,694	65,694	3,454
		19.00			Total Cost	1,685,880	504,027
<i>*Salary costs are assumed at minimum for the grade level x 1.25 percent, flat insurance rate, and a total of 15.7 percent for retirement and FICA costs</i>							
<i>** General OC includes office supplies, IT supplies/licenses, printing, production, mailing and other misc. OE items</i>							

- Landlord Tenant Handbook Publication (Sections 29-6(f) and 29-28(f))
 - These sections require providing a Landlord Tenant handbook to every tenant.

- There are approximately 100,000 rental units including multifamily, single family, condominium and accessory apartments. The actual number of tenants is unknown so the cost to provide tenant handbooks is based on the number of rental units.
- The average cost to produce one book is \$1.00 and \$1.15 to distribute by mail.
- Total one-time cost is approximately \$215,000 to provide one handbook per rental unit.
- Based on the DHCA 2014 Rental Housing Survey, there is approximately a 23.4 percent rental unit turnover rate annually. Therefore, the ongoing cost to provide Landlord Tenant Handbooks for the 23,400 units (100,000 x 23.4%) represented as turnover is \$50,310 including the cost to distribute the handbook.
- Landlord Tenant Handbook and Standard Form Lease translated and available in Spanish, French, Chinese, Korean, Vietnamese, and other languages as needed Section 29-6(f) and Section 29-6 (g).
 - Per the County’s vendor, to translate the Landlord Tenant Handbook into the five specified languages would cost \$16,992.
 - Translating the handbook into other languages as needed would cost between \$3,144 and \$3,780 per language.
 - It is unknown how many “as needed” translations would be requested.

Landlord Tenant Handbook Translation				
Size	Units	Description	Rate	Amount
25200	words	SPANISH, Standard Turnaround, 15-16 bus. days	\$ 0.15	3,780
25200	words	FRENCH, Standard Turnaround, 15-16 bus. days	\$ 0.15	3,780
20959	words	KOREAN, Standard Turnaround, 15-16 bus. days	\$ 0.15	3,144
20959	words	VIETNAMESE, Standard Turnaround, 15-16 bus. days	\$ 0.15	3,144
20959	words	CHINESE, Standard Turnaround, 15-16 bus. days	\$ 0.15	3,144
			Total	16,992

- Per the County’s vendor, to translate the Standard Form Lease into the five specified languages would cost \$6,457.
- Translating the lease into other languages as needed would cost between \$1,192 and \$1,440 per language.
- It is unknown how many “as needed” translations would be requested.

Standard Lease Translation				
Size	Units	Description	Rate	Amount
9600	words	SPANISH, Standard Turnaround, 6-7 bus. days	\$0.15	1,440
9600	words	FRENCH, Standard Turnaround, 6-7 bus. days	\$0.15	1,440
7948	words	KOREAN, Standard Turnaround, 6-7 bus. days	\$0.15	1,192
7948	words	CHINESE, Standard Turnaround, 6-7 bus. days	\$0.15	1,192
7948	words	VIETNAMESE, Standard Turnaround, 6-7 bus. days	\$0.15	1,192
			Total	6,457

- Landlord Tenant Rent Increase Review (Section 29-53(c))
 - Under this section, the Office of Landlord Tenant Affairs must review all rent increases that are more than 100 percent of the applicable rent increase guideline to determine patterns of increases that harm tenants.
 - On an ongoing basis, all landlords would need to forward copies of all rent increase notices monthly in order for DHCA staff to review and track them to establish a pattern per the proposed code.
 - This would require 0.5 FTE to complete on a regular basis.
 - Total cost for 0.5 FTE of an Investigator III (Grade 25) is \$52,335.

- Rental Housing Data Collection – Licensing and Registration IT Improvements (Section 29-51(j))
 - The Licensing and Registration section would be required to add certain reports to its current IT system and perform data analysis for each of the 69,000 multifamily units on an annual basis.
 - Licensing staff would be responsible to review multifamily unit rent increases greater than specified amounts/percentages and recognize patterns of increases that may particularly harm tenants.
 - This would require updates to the current database, new reporting capabilities, and staff time to prepare and analyze these reports.
 - In the year that the bill is implemented, DHCA estimates it will take approximately 180 hours of licensing and registration staff time (180 hrs. x \$45 = \$8,100) and 30 hours of IT staff time (30 hrs. x \$63 = \$1,890). Total implementation cost is estimated at \$9,900.
 - Once the bill is implemented, DHCA expects that there will be less time required by program staff but more time required by IT staff to maintain and update the database. It is estimated that it will take approximately 110 hours of licensing and registration staff time (110 hrs. x \$45 = \$4,950) and 90 hours of IT staff time (90 hrs. x \$63 = \$5,670). Therefore, the ongoing staff cost is estimated at \$10,620.

3. Revenue and expenditure estimates covering at least the next 6 fiscal years.

There is no estimated change to County revenues.

One-Time Cost

Vehicles, workstations, tablets and mobile phones	\$504,027
Production and distribution of the handbook	215,000
Translation of Landlord Tenant Handbook and Standard Lease	23,449
Staff time to implement reporting and analysis tools	9,990

Total One-Time Cost \$752,466

Summary of Expenses	Year 1	Year 2 - 6	Total
Code Enforcement	2,189,907	8,429,400	10,619,307
Landlord Tenant Handbook Print/Mail	215,000	251,550	466,550
Landlord Tenant Handbook (Translated)	16,992	-	16,992
Standard Lease (Translated)	6,457	-	6,457
Landlord Tenant Rent Increase Review	52,335	261,674	314,009
Licensing and Registration	9,990	53,100	63,090
Total	\$2,490,680	\$8,995,724	\$11,486,405

4. An actuarial analysis through the entire amortization period for each bill that would affect retiree pension or group insurance costs.

Not Applicable

5. An estimate of expenditures related to County's information technology (IT) systems, including Enterprise Resource Planning (ERP) systems.

Bill 19-15 would not impact the County's Enterprise IT systems, but it would affect DHCA's IT infrastructure. DHCA's IT systems are programmed in ASP.net. It is expected that modifications to the current system would be done in-house and would not require purchasing additional IT hardware or software; however, DHCA anticipates a need for one additional IT FTE (see above in #2).

6. Later actions that may affect future revenue and expenditures if the bill authorizes future spending.

The bill does not authorize future spending.

7. An estimate of the staff time needed to implement the bill.

Additional FTEs are required to implement Bill 19-15. For the Code Enforcement section there is a need to add 19 FTEs. This includes FTEs for inspectors, program managers, an IT Technician, and an administrative aide (see above in #2). There is also need for an additional 0.5 FTE (Investigator III) in the Office of Landlord Tenant Affairs to complete a review of rent increases of 100 percent or more. In the year that the bill is implemented, DHCA estimates it will take approximately 180 hours of licensing and registration staff time to perform data analysis for each of the 69,000 multifamily units, review multifamily unit rent increases greater than specified amounts/percentages and recognize patterns of increases that may particularly have an impact on tenants; and 30 hours of IT staff time to update the current database, and develop new reporting capabilities.

Once the bill is implemented, DHCA expects that there will be less time required by program staff but more time required by IT staff to maintain and update the database. It is estimated that it will take approximately 110 hours of licensing and registration staff time and 90 hours of IT staff time.

8. An explanation of how the addition of new staff responsibilities would affect other duties.

This would affect the Licensing and Registration section. These tasks would require additional temporary support while current staff performs the necessary analysis.

9. An estimate of costs when an additional appropriation is needed.

DHCA would require \$2,490,680 for the staffing and associated costs listed above in the fiscal year the bill is enacted for implementation and \$1,799,145 per year, each year after implementation of the bill to cover ongoing costs.

10. A description of any variable that could affect revenue and cost estimates.

The fiscal impact statement assumes the bill requires annual inspections of all multifamily properties. The total cost estimate may be different based on the percentage of units required to be inspected annually. It also assumes the Tenant handbook will be distributed by mail. Cost would be less if the handbook were distributed electronically.

11. Ranges of revenue or expenditures that are uncertain or difficult to project.

The total cost to translate the Landlord Tenant Handbook and the Standard lease is uncertain as it is uncertain how many "as needed" translation requests DHCA will receive. Below is the per-unit cost of each translation.

- Translating the handbook into other languages as needed would cost between \$3,144 and \$3,780 per language.
- Translating the lease into other languages as needed would cost between \$1,192 and \$1,440 per language.

12. If a bill is likely to have no fiscal impact, why that is the case.

Not Applicable

13. Other fiscal impacts or comments.

Not Applicable

14. The following contributed to and concurred with this analysis:

Clarence Snuggs, DHCA

Tim Goetzinger, DHCA

Chris Anderson, DHCA

Jay Greene, DHCA

Rosie McCray-Moody, DHCA

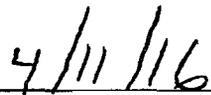
Dan, McHugh, DHCA

Francene Hill, DHCA

Jennifer Bryant, OMB

for 

Jennifer A. Hughes, Director
Office of Management and Budget



Date



DEPARTMENT OF FINANCE

Isiah Leggett
County Executive

Joseph F. Beach
Director

MEMORANDUM

June 24, 2016

TO: Nancy Floreen, President, County Council

FROM: *box* Jennifer A. Hughes, Director, Office of Management and Budget
For Joseph F. Beach, Director, Department of Finance

SUBJECT: Revised EIS for Bill 19-15, Landlord - Tenant Relations - Licensing of Rental Housing - Landlord-Tenant Obligations

Please find attached revised economic impact statements for the above-referenced legislation.

JAH:fz

cc: Bonnie Kirkland, Assistant Chief Administrative Officer
Lisa Austin, Offices of the County Executive
Joy Nurmi, Special Assistant to the County Executive
Patrick Lacefield, Director, Public Information Office
Robert Hagedoorn, Acting Director, Department of Finance
Clarence J. Snuggs, Director, Department of Housing and Community Affairs
David Platt, Department of Finance
Naeem Mia, Office of Management and Budget

Office of the Director

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Revised Economic Impact Statement
Bill 19-15, Landlord – Tenant Relations – Licensing of Rental Housing –
Landlord-Tenant Obligations

Background:

This legislation would:

- Provide for annual inspection of certain residential rental properties,
- Require the use of a standard form lease and applicable optional provision for certain residential rental properties,
- Require the publication of certain information related to rental housing,
- Require the Department of Housing and Community Affairs (DHCA) to review certain rent increases,
- Provide for certain remedies to be awarded by the Commission on Landlord-Tenant Affairs, and
- Provide certain rights to tenants facing rent increases.

1. The sources of information, assumptions, and methodologies used.

Sources of information include:

- Department of Housing and Community Affairs (DHCA),
- Maryland-National Capital Park and Planning Commission - Montgomery County, MD Planning Department (Planning),
- Metropolitan Regional Information System, Inc. (MRIS),
- Greater Capital Area Association of Realtors (GCAAR),
- American Community Survey (ACS), U.S. Census Bureau,
- Bureau of Labor Statistics (BLS), U.S. Department of Labor,
- National Multifamily Housing Council/National Apartment Association (NMHC/NAA),

The economic impact statement will focus on the portions of Bill 19-15 that directly impact the economic performance of the local rental market such as:

- Additional costs incurred by the landlord as required under Bill 19-15,
- Permitting tenants to convert a one-year lease to a two-year lease within 30 days after signing the lease, and
- Rent increase guidelines based on the increase or decrease in the Consumer Price Index for all urban consumers (CPI-U) for the Baltimore-Washington Consolidated Metropolitan Statistical Area (CMSA).

Data provided by NMHC/NAA for the Eighth Congressional District (District) present the economic benefits of the apartment industry. Those benefits include:

Revised Economic Impact Statement
Bill 19-15, Landlord – Tenant Relations – Licensing of Rental Housing –
Landlord-Tenant Obligations

- There are 125,100 residents in the District that live in apartments,
- The apartment industry in the District contributes \$2.7 billion to the local economy, and
- The number of jobs related to the apartment industry in the District is approximately 25,100.

Data from DHCA as reported in its study entitled *Rental Apartment Vacancy Report 2012* states:

- The countywide vacancy rate for all surveyed units (market and subsidized units) was 3.5 percent in 2012, the latest date for which data are available – a decrease of 0.2 percentage points from 3.7 percent in 2011 and a decrease of 1.8 percentage points from 4.3 percent in 2008,
- The vacancy rate in 2012 varied from a high of 3.9 percent for efficiency units to 1.0 percent for 4+ bedroom units,
- The countywide vacancy rate for market-rate units was 3.7 percent in 2012 – a decrease of 0.1 percentage point from 3.8 percent in 2011,
- The vacancy rate for market-rate units varied from a high of 4.0 percent for efficiency units to 1.7 percent for 4+ bedroom units,
- In 2012, the countywide turnover rate for market and subsidized units was 31.0 percent – 1.5 percentage points lower than the 32.5 percent in 2011, and
- The turnover rate for market and subsidized units varied from a high of 35.5 percent for efficiency units to a low of 17.7 percent for 4+ bedroom units.

DHCA also provided the following information, definitions, and data regarding the capitalization rates, return on cost, and cost of capital used by DHCA and the industry:

- Capitalization (“cap”) rates are used by the Maryland State Department of Assessments and Taxation (SDAT) to determine the value of the property by dividing the net income of a property by a “cap” rate,
- Appraisers, lenders, and investors are currently using “cap” rates for valuation of multifamily properties in Montgomery County between 4.00 and 6.00 percent.
- Return on cost (ROC) is an industry standard used by lenders and investors that is applied to the market value of new construction projects,
- Currently the threshold measure for ROC averages between 6.50 percent and 8.00 percent,
- Cost of capital or cost of debt or equity is a measure of profitability for a particular rental property,
- Currently, cost of capital seeks a return from 4.50 percent to 5.75 percent on a property,

Revised Economic Impact Statement
Bill 19-15, Landlord – Tenant Relations – Licensing of Rental Housing –
Landlord-Tenant Obligations

- Return on equity and investment debt seeks a return from 8.00 percent to 15.00 percent, and
- Historically, the threshold measures for the “cap” rate, ROC, and equity investment debt exceed the rate of inflation (please see paragraph #2).

2. A description of any variable that could affect the economic impact estimates.

The variables that could affect the economic impact estimates are:

- The cost to the landlord for providing a copy of the landlord-tenant handbook developed by DHCA to a tenant,
- The inspection cost to the landlord if there is a violation of applicable laws more than twice in two consecutive years,
- The current rental prices for multi-family housing,
- The threshold rate for the capitalization rate, return on cost, and cost of capital, and return on equity and investment debt,
- The percent change in the CPI-U for the Washington-Baltimore CMSA,
- The number of the tenants who would convert a one-year lease to a two-year lease within 30 days after signing the lease, and
- Permitting tenants to extend for up to two months at the original lease amount when the lease renewal amount exceeds the rental increase guidelines

Under Bill 19-15, DHCA will develop and distribute a copy of the landlord-tenant handbook to landlords and require a landlord to provide a copy to a tenant upon request. Finance assumes that the cost to the landlord is determined by “production” costs and the number of tenants who request a copy. At this time, those costs are unknown, but those costs will affect the expenses incurred by the landlord and those costs are assumed not to be passed on to the tenant.

Bill 19-15 would require the landlord to pay the cost of inspection if the landlord violated applicable laws for two consecutive years. While such costs will vary from landlord to landlord, it will have an effect on the landlord’s income assuming the landlord’s cost avoidance to complying with applicable laws is less than the cost of the inspection.

Data provided by MRIS and GCAAR show that rental prices increased from the first quarter of 2010 to the first quarter of 2015 as follows:

- Garden (1-4 floors): 11.90%
- Mid-Rise (5-8 floors): 34.70%
- Hi-Rise (9+ floors): 1.62%

Comparing those percent increases with the increase in the CPI-U of 9.01 percent over the same period, rent increases for both garden and mid-rise apartments

Revised Economic Impact Statement
Bill 19-15, Landlord – Tenant Relations – Licensing of Rental Housing –
Landlord-Tenant Obligations

exceeded the percent change in the CPI-U. Comparing the rent increases with the increase in the CPI's rental equivalent index of 14.97 percent, the only percent increase that exceeded that index occurred with mid-rise units.

However, by setting the proposed guidelines for rent increases to the CPI-U rather than the CPI rental equivalent could result in lower rental guidelines and potentially limit rent increases for the garden and mid-rise units over the 2010 to 2015 period and could have a negative impact on revenues received by landlords. While such a reduction in the guidelines for rent increases would affect revenues to landlords, tenants would receive a positive economic benefit. Therefore, such a change in the guidelines regarding allowable rent increases would have a zero sum impact on the County's economy. However, all things being equal, there is a point at which a reduction of allowable rent increases, whether actual or perceived, would provide an economic disincentive that will steer developers of new rental housing to competing jurisdictions where such requirement are not present in other jurisdictions.

Bill 19-15 would allow a tenant to covert a one-year lease to a two-year lease within 30 days after signing the lease. Assuming that the monthly rent for the two-year lease would then be the same as for the initial one-year lease, the tenant would receive a positive economic benefit of maintaining the same monthly rent for a two-year period while the landlord would experience a negative economic benefit.

Planning provided data from the 2013 American Community Survey (ACS), U.S. Census Bureau that show the tenure of households that rent in Montgomery County. From that data, the percent of rental households who have "moved in 2010 or later" was 64.1 percent or an estimated 201,301 residents countywide. That percent steadily decreased to 0.1 percent for renters who "moved in 1969 or earlier." Therefore there are a larger percentage of renters who have recently moved into rental units in the County and are more likely to convert a one-year lease to a two-year lease.

Finally, Bill 19-15 allows a tenant to occupy the unit at the current rate for a maximum of two months after the term of the lease expires if the rent increase exceeds the applicable guideline. DHCA will publish the average rent increase for each unit under specific guidelines. If those guidelines are based on inflation, and since data in #2 indicate that for both garden and mid-rise units the rent increase is greater than the rate of inflation, while it is less than for high-rise units, it is uncertain at this time, what the economic cost to the landlord and the economic benefit to the tenant would be.

3. The Bill's positive or negative effect, if any on employment, spending, savings, investment, incomes, and property values in the County.

Bill 19-15 could have a negative effect on landlord's business revenue through reduced allowable increases in monthly rents, additional expenditures incurred by providing a handbook to tenants requesting it, and costs for those inspections in

Revised Economic Impact Statement
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Landlord-Tenant Obligations

violation of applicable laws. With the potential impact on rents and the additional operating costs, those factors may have a negative impact on employment and economic contributions to the County's economy as presented by the data cited by NMHC/NHA.

Data provided by DHCA suggest that lowering the guidelines for rent increases and thereby limiting the increase in monthly rents to the consumer price index could result in keeping those rates below the threshold return on cost and return on capital and below the current capitalization rate for property assessments. Regarding the effect on returns on cost and capital, capping rental rates to the rate of inflation may have a negative impact on investment in new rental housing construction.

Those potential negative effects on housing supply, the quality of housing stock, and business income and the threshold rates for property values and investment could be partially offset by positive impacts for tenants by restricting rent increases. It is uncertain without specificity of data if the negative effects experienced by the landlord and the rental market industry are identically offset by the positive economic benefits to the tenant. If such effects are not identically offset, that is, the costs to the landlords and rental market industry are greater than the benefits to the tenants, there would be a negative impact on property values, business income, investment and employment in the County. Also, if Bill 19-15 discourages investment in new rental property, it could have a negative impact on the portion of recordation tax revenues that are used to support rental assistance for the same residents affected by this legislation.

4. If a Bill is likely to have no economic impact, why is that the case

The subject legislation will have an economic impact on the County, however, as mentioned in paragraph #3, without specific data on the economic impacts to landlords and tenants, a quantitative measurement of the impact on savings, investment, employment and property values is not feasible.

5. The following contributed to or concurred with this analysis: David Platt and Rob Hagedoorn, Finance; and Timothy Goetzinger, DHCA.

For

Joseph F. Beach, Director
Department of Finance

6/24/16
Date



MONTGOMERY COUNTY COUNCIL
ROCKVILLE, MARYLAND

MARC ELRICH
COUNCILMEMBER AT-LARGE

To:  The Honorable Isiah Leggett, County Executive

Re: Inspections of rental units in Montgomery County

Date: October 10, 2016

This memo is to explain in writing my proposal for a rational process for determining an inspection regime for the approximately 67,000 rental units in Montgomery County (outside of Takoma Park).

Background and Rationale:

As you know, I had proposed in my Bill 19-15 that all rental units be inspected every year. The response was that it was too costly to proceed with 100% annual inspections, and that not every building needs annual 100% inspections. My staff and I have had numerous conversations with Clarence Snuggs and others at the Department of Housing and Community Affairs as well as with Councilmembers, landlords, community advocates, tenants and Council staff in attempt to find a cost effective solution to the current inspection gap.

Two apartment complexes illustrate some of the existing problems with the current inspection procedures. Flower Branch and Northwest Park apartment complexes provide examples of the dilemmas of the current inspections process. Tenants at both complexes have reported multiple and varied issues with the units and buildings.

Flower Branch has been inspected every three years - 100% of the units. At a recent meeting with tenants following a tragic gas explosion at the apartment complex, tenants talked of ongoing issues as well as the aftermath from the recent tragedy. The 100% every three-year inspections did not address all of their problems.

Northwest Park had its first 100% inspection in at least ten years; tenants have told organizers of pervasive mold and other problems. (In 2004, 2007, 2011 and 2013, it had 10% of units inspected.) Northwest Park residents spoke to me and others about the multiple problems with the apartments over the years. At the recent

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Re: Inspections of rental units in Montgomery County
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inspections, it was reported that individual unit inspections ranged from two to five minutes at each unit, and different inspectors checked apartments differently.

Additionally, the inspectors asked tenants – while a landlord representative was present – whether there were any problems with the apartment.

Both buildings had numerous code violations cited during the inspections. Despite the problems, few tenants at either complex called the county with complaints that would have triggered inspections. This is not surprising; we know that many tenants do not feel comfortable calling local government. Others simply fear being targeted by management if they speak up or ask for significant repairs. The retaliation by management is generally subtle; a lease is simply not renewed. One woman my staff and I met with had been quite outspoken about the problems at Northwest Park where she had lived many years. We were told that soon after we met her, her lease was not renewed; she had been late on rent and was too embarrassed to reach out for help. (Often management will work with tenants who are late with payments if they are “good” tenants.) Others have told us that they do not want to be labeled as “troublemakers” and are reluctant to complain or even make requests for repairs.

If inspections were regular and comprehensive, then the burden would not be on individual tenants to step forward, call attention to themselves and point out violations. We can agree that not every unit in every building needs inspections every year; however, many buildings are in need of more regular inspections than are currently provided. Currently, we have no rational way to determine or know which units in which buildings need more frequent inspections and which ones can be on a less frequent schedule.

“Surge” Proposal

We need an inspection protocol that maximizes limited resources and targets the apartment units most in need of regular inspection. This protocol needs to include a standard inspection procedure and a rationale for an inspection protocol and schedule. That is why I am writing to you with my proposal for a “surge” inspection process.

The “surge” would use contract hires to serve as inspectors to supplement the full-time, permanent staff of inspectors. Over the course of the next two years, every apartment unit in the county would be inspected, beginning with the oldest buildings first and the newest ones last, to develop a baseline of conditions.

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All inspectors (contract and permanent county hires) would undergo a uniform training to show what needs to be inspected and how it should be inspected. A standardized checklist would be used so that specific problems are cited so that

inspectors, management and tenants all know what needs to be corrected. A standard checklist would also allow the inspection results to be compared from year to year and among apartment units and buildings. Comparisons help identify ongoing problems; for example "normal wear and tear" for the same room/equipment should only happen once; if it shows up multiple times, it may highlight a different problem.

During the surge inspections, criteria can begin to be developed to guide the development of a schedule of whether buildings should be inspected on an annual, biannual or less frequent schedule. The surge inspection results should also give a clearer picture of the number and type of violations in a building and help determine rational answers to the questions, "How many violations are too many?" and "How many violations are serious (and the definition of "serious")?" Violations could be identified as major "life/safety" violations, minor violations and other categories as decided.

Additionally, inspections in units with tenants present should happen without the property manager (or other landlord representative) present in order to allow the free flow of information. I understand, of course, that when a tenant is not present, then the landlord's representative must accompany the inspector.

The surge will also help determine the appropriate number of inspectors that should be permanent county employees, which brings me to the funding issue. As you know, the cost of inspections is supposed to be funded by the per-unit charge applied at the annual licensing process. That charge is currently \$41/unit/year. (In Takoma Park, it was \$103/unit in 2015.) Each additional \$1 to the licensing fee pays for approximately one additional inspector. (It can also be thought of as an additional \$.08/month on rent since presumably the inspection cost is passed on to the tenant in many instances.) During worksessions of the Planning Housing and Economic Development (PHED) committee, we learned that about \$1 million of those fees are used for purposes other than housing inspections. In addition, to reclaiming those funds, which should pay for at least ten full-time inspectors, a *temporary* surcharge could be added to the licensing fee for the two years of the surge to pay for the contract inspectors, who would not have the added long-term costs of permanent employees.

To: The Honorable Isiah Leggett
Re: Inspections of rental units in Montgomery County
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In conclusion, I think we can agree that the problems with the current inspection process are too serious to ignore. I believe this surge proposal gives us a path to determine a rational fair process for improving the inspection regime. As you know one-third of our residents are renters and improving inspections can help insure

that they live in decent homes and have the quiet enjoyment of a home as all of us should. I am hopeful that the surge and the ensuing results will help develop a model for the region and beyond, and once again Montgomery County can lead in innovative public policy.

I look forward to working with you to implementing this proposal as soon as possible.

Cc:

Clarence Snuggs, Director, Department of Housing and Community Affairs
Bonnie Kirkland, Assistant Chief Administrative Officer
Chuck Short, Special Assistant to the County Executive



MONTGOMERY COUNTY COUNCIL
ROCKVILLE, MARYLAND

TOM HUCKER
COUNCILMEMBER
DISTRICT 5

MEMORANDUM

TO: Council President Nancy Floreen, Chair, PHED Committee
Councilmember George Leventhal, Member, PHED Committee
Councilmember Hans Riemer, Member, PHED Committee

FROM: Councilmember Tom Hucker

SUBJECT: Bill 19-15, Rental Housing - Landlord-Tenant Obligations

DATE: October 24, 2016

I am writing to propose three amendments to Bill 19-15. Through my meetings with residents, it has become clear that there is a significant disconnect between our most vulnerable residents and the County services that are supposed to protect them. The Northwest Park Apartments in Silver Spring, for example, had over 2,200 violations across their 800 units during their most recent triennial inspection. According to DHCA, however, there were only nine complaints from residents during the 2015 calendar year.

While this disparity can be attributed to a language barrier and general mistrust of government, it is difficult to believe that the property management company was completely unaware of these violations. At the Flower Branch apartments in Long Branch, residents reported numerous complaints to the property manager, including the smell of natural gas in their apartments and around the common areas. Yet residents were reluctant to report these issues to the County due to fear of retribution from the management company.

I am confident that the PHED Committee will address these issues through a more robust inspection regime, but I propose the following amendments to make better use of County resources:

1. **Require DHCA to submit an annual report to the Council.** This report will help the Council make informed budget and policy decisions to address ongoing housing issues. The report must include:
 - a. A schedule of properties that received an inspection the previous fiscal year, including a list of all violations found, violations corrected and the status of any incomplete inspections; and

- b. A schedule of properties scheduled to receive an annual, biennial or triennial inspection in the coming fiscal year.

2. Prioritize code enforcement according to the severity and number of violations found. This will allow DHCA to target its limited resources on properties with a history of chronic violations.

- a. Properties with violations that pose a health and safety risk to tenants must be inspected on an annual basis until all violations are corrected and no additional health and safety violations are found for two consecutive inspections. Health and safety violations include mold, infestations, lack of working heat, electricity, water and sewage disposal.
- b. Properties with an average of two violations per unit at the last inspection must also be inspected on an annual basis until all violations are corrected and no additional violations are found for two consecutive inspections.
- c. Properties with an average of one violation per unit at the at the last inspection must also be inspected on an annual basis until all violations are corrected and no additional violations are found for two consecutive inspections.

3. Require landlords that are on an annual inspection regime to provide DHCA with quarterly reports on subsequent and outstanding complaints. As noted above, residents often report complaints to their landlord without ever reporting them to the County. Requiring landlords to report complaints to the County will help inspectors identify issues and follow up on outstanding violations.

Thank you in advance for your consideration of these amendments. I look forward to working with you on these and other renter protections.

Hucker Amendments

These amendments would: (1) require the Director to provide the Council with an annual report on inspections; (2) require properties with certain types or numbers of violations to be inspected annually and others biennially; and (3) require certain landlords to provide the Director with quarterly updates listing all tenant complaints.

Add after line 27:

- (h) The Director must report on rental housing inspections to the Executive and the Council, by September 1 of each year. The report must include:
- (1) the address of each property inspected during the most recent fiscal year;
 - (2) the address of each property that has been inspected or is scheduled to be inspected on an annual, biennial, or triennial inspection during the current fiscal year; and
 - (3) for each property inspected in the last fiscal year or during the current fiscal year, a list of:
 - (A) violations found;
 - (B) violations corrected; and
 - (C) the status of any incomplete inspections; and

Amend lines 29-59 as follows:

29-22. Inspection of rental housing.

- (a) [The] Except as provided in this Section, the Director must inspect [[all rental housing consisting of two or more dwelling units, including]] each apartment complex and personal living quarters building licensed as rental housing, at least once [every three years] [[each year]] within each three-year period to determine if it complies with all applicable laws. [The Director may inspect an apartment complex or personal living

quarters building more often than the triennial inspection.] The Director may inspect an apartment complex or personal living quarters building more often than the triennial inspection.

(b) [[If the Director finds that a landlord of licensed rental housing has a demonstrated history of compliance with applicable laws over the most recent three years, the Director may thereafter inspect the licensed rental housing once every three years.]] The Director must inspect, at least once each year:

(1) any rental housing which, after inspection, the Director finds in violation of any applicable law related to the health and safety of the tenants, including:

(A) rodent or insect infestation affecting 20% or more units in a building;

(B) mold; or

(C) lack of working utilities, including:

(i) heat;

(ii) electricity;

(iii) water; or

(iv) sewage disposal; and

(2) any rental housing which, after inspection, the Director finds an average of more than two violations of applicable law per unit inspected.

A property subject to inspection under this paragraph must be inspected each year until the Director finds the reason for the annual inspection identified in subsection (b) no longer applies to the property for two consecutive inspections.

(c) The Director must inspect, at least once within each two-year period, any rental housing which, after inspection, the Director finds an average of at least one violation of applicable law per unit inspected. A property subject to inspection under this paragraph must be inspected at least once within each two-year period until the Director finds the reason for the additional inspection identified in this subsection no longer applies to the property for two consecutive inspections.

(d) The Director may inspect any other rental housing if the Director receives a complaint or a request from a landlord or tenant or believes that the rental housing does not comply with all applicable laws.

[(c)][[(d)]](e) As a condition of receiving a license under this Chapter, a landlord must agree to:

- (1) allow access to the Department for any inspection required under this Chapter or Chapter 26; [[and]]
- (2) notify any affected tenant whose unit requires inspection at least 72 hours in advance of [[the]] a scheduled inspection under subsection (a) of this Section[.]; and
- (3) when subject to annual inspections under subsection (b), provide quarterly updates to the Director listing all complaints received by the landlord from tenants.

[(d)][[(e)]](f) If an inspection indicates that any rental housing does not comply with all applicable laws, the Director may revoke the license or take other remedial action under Section 29-25.

[(f)](g) A landlord of licensed rental housing [[found in]] notified after initial inspection of a violation of applicable laws [[more than twice in two consecutive years]] must pay the cost of the [[next inspection]] third.

and subsequent inspections, as [[determined by the Director]] established in regulation, if the violation is not corrected by the second inspection.

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