
Business Licensing Revenue Opportunity Review

November 8, 2002

Licensing Revenue Opportunity Review

Introduction

The Business Licensing Section requested the assistance of the OCA in identifying additional revenue opportunities. In a preliminary investigation, the OCA determined that possibilities for additional revenue generation might exist through increased compliance with business licensing requirements and improved management of delinquent accounts. The goal of this review was to identify the potential revenue that could be generated through improved compliance with the licensing bylaw and through improved management of delinquent accounts.

At present, business licensing is governed by City Bylaw No. 6124, which was passed in August of 1985. The bylaw requires all persons operating businesses within the City to possess a license. Only professionals such as doctors, lawyers, engineers, accountants, etc. who are governed by provincially established self-governing associations are exempt from the bylaw. The types of businesses that require licenses range from manufacturing and processing companies to service and entertainment businesses.

All applications for new licenses, renewals, or transfers must be submitted in writing. All applicants must be over 18 years of age. If the applicant is a corporate body, the names and addresses of directors and officers (or the corporation's Provincial Corporate Registry identifier) must be included in the application.

At present, all licenses expire at year-end on December 31. Licenses may be obtained for half a year for applications and fee payments made after July 31. The fees charged for licenses vary according to the nature of the business and range from \$35 for a snack bar to \$3,000 for three days for a transient trader of furs. The average yearly business license fee is around \$145.

The branch has completed a new business licence bylaw in which license categories and fees will be revised. Under the new bylaw, business licenses will be issued in each month of the year and will expire a year later in the month of issue. Renewals and collection of fees will then be done throughout the year instead of at the beginning of the year.

Scope and Methodology

The Business Licensing Revenue Opportunity Review examined the practices performed by the Licensing Section, the Complaints Investigation Section, and the Customer Information & Advisory Section of the Development Compliance Branch. These sections are responsible for licensing administration, investigation and enforcement, and the collection and processing of fees. The review specifically focused on those areas that would yield the greatest benefit to the Corporation through improved controls, such as greater compliance with the City Bylaw No. 6124 and improved management of delinquent accounts. The potential risks addressed were; a) enforcement of City licensing bylaw may be insufficient, b) detection and follow-up of

non-payment of fees may be inadequate, and c) excessive numbers of uncollectable accounts are recorded as delinquent.

The level of compliance with the licensing bylaw was determined through an electronic comparison of business names and addresses listed in internal and external databases to those listed in the business licensing bylaw database. The results of the comparison were analyzed further to determine the amount of potential revenue that could be generated from full compliance. The timing of fee payments for business licensing as recorded in SAP financial accounts was also analyzed and compared to the Branch's policy of requiring renewal fees to be paid within thirty days of license expiry. Further analysis was conducted to determine the number of uncollectable accounts that would exist at year-end based on the observed fee payment pattern.

Observations and Conclusions

Business License Fee Payment and Uncollectable Accounts.

Currently all licenses expire at the end of the year on December 31. Notices for renewal are sent out at the end of the year by the Corporate Cash Management System (CCMS), requesting payment to be made within thirty days of expiry. All cash payments are recorded and transmitted daily into SAP. All cheques received are deposited into the bank and revenues recorded directly into SAP by the CCMS. SAP updates the BLIS database daily on payments received by the City.

Each month an Overdue Report is generated that lists businesses that have been sent notices and from whom payments have not been received. Complaints and Investigation Municipal Enforcement Officers (MEO) visit the businesses that have not paid licensing fees to determine if they are still operating. A seven-day notice to comply is left with the owner if the business is still operating. Failure to comply will result in a \$250 violation ticket being issued by an MEO. Starting in 2003, Call Centre clerical technicians will start contacting businesses that fail to renew business licenses within 30 days of expiry. If contact is made by phone, seven-day notices to comply will be mailed to business owners. If the business owner takes no action, an MEO will visit the business location and issue a violation ticket.

An analysis of licensing fee payments for the first six months of 2002 indicates that 60% of business licenses are being paid within thirty days of expiry. Thirty-four percent of business licenses are paid between 31 and 180 days after expiry. As of June 30, 6% of business license fee payments were still outstanding. A projection of the fee payment pattern indicates that approximately 1% of business license fees will be outstanding by year-end. This analysis indicates that a substantial majority of fee payments are being made within specified time periods and that the amount of uncollectable accounts is reasonably low.

Compliance with City Licensing Bylaw

Overall the level of compliance with the City bylaw by resident businesses is about 80% and the potential increase in licensing revenue is about 25%. At present, there are 25,700 business licenses generating \$3,800,000 in revenue. Increasing compliance to 100% (32,200 licenses) would add about 6500 new licenses with corresponding revenue of approximately \$950,000 per year (*Recommendation 1*).

Overall, there is a fairly high level of compliance with the Business Licensing Bylaw. Those businesses that are non-compliant tend to be small and transient in nature. Beyond requiring a business license for vendors applying for development permits, extensive effort is not made to inform new business proprietors of the need to comply with the licensing bylaw. At present only one pamphlet is available that provides information on licensing. Other means such as by-lines on the City's internet site, property tax notices, EPCOR bills, EDE publications, Business Incubation Centre training materials, etc. of informing the general public on business licensing is not utilized (*Recommendation 2*).

The 14,737 non-resident businesses listed on the Vendor Master File were examined. The number of non-resident businesses that had received more than \$5,000 in total from the City over the past six years and/or received more than \$2,500 per year were determined. Excluding non-resident suppliers of manufactured and finished goods, and of professional services, there were approximately 723 businesses that met these criteria. Assuming all 723 non-resident businesses had conducted their business within the corporate limits of the City of Edmonton over the past six years and were subject to the License Bylaw, the potential revenue from license fees and penalties would be approximately \$78,000 per year. Non-resident businesses dealing with the City are not currently required to have a business license as a condition of contract (*Recommendation 3*).

Penalties exist for non-compliance with the bylaw and are stipulated in schedule B of Bylaw No. 6124. However, analysis of the business license fee payments for the first six months of 2002 indicates that if the penalties were consistently applied to businesses that don't pay by the due date, additional revenue could be generated from fines.

The analyses conducted during this review indicate that revenue from business licensing fees is not being maximized. There is a potential of up to \$1 million in additional annual revenues that may be collectable through license fees, non-resident vendor surcharges, and late payment penalties.

Recommendations and Action Plans

| Opportunity for Improvement | Management Response |
|---|---|
| <p>1. Determine the level of compliance every two years by comparing the business licensing database to the business property tax roll and external databases such as the white pages and yellow pages.</p> | <p>Accepted <i>Target Date:</i> Dec. 2004 <i>Responsible Party:</i> Director of Permitting and Licensing. Recommendation represents excellent way to check effectiveness of other initiatives and insures level playing field.</p> |
| <p>2. Improve communication of business licensing requirements to the business community by utilizing appropriate forms of media.</p> | <p>Accepted <i>Target Date:</i> June 2003 <i>Responsible Party:</i> Manager Development Compliance Branch. Branch has a number of initiatives in mind and recommendation fits with general initiatives around the value of complying with City Bylaws.</p> |
| <p>3. Require all non-resident vendors that are conducting their business within corporate limits for contracted amounts over \$5,000 in total and/or more than \$2,500 per year to obtain a business license (as applicable) as a condition of obtaining a contract with the City of Edmonton.</p> | <p>Accepted <i>Target Date:</i> June 2003 <i>Responsible Party:</i> Managers of Finance Branch and Development Compliance Branch. Proposal levels playing field and ensures compliance with City Bylaws.</p> |