

CITY OF PALM DESERT STAFF REPORT

MEETING DATE: January 9, 2025

PREPARED BY: Richard D. Cannone, AICP, Development Services Director

SUBJECT: STUDY SESSION: EVALUATION OF BUSINESS LICENSING SERVICES

RECOMMENDATION:

1. Provide feedback on the following considerations:
 - a. Bring all business licensing functions back in-house beginning January 1, 2026; and
 - b. Establish an annual fixed date for Business Licensing renewals.

BACKGROUND/ANALYSIS:

In 2021, the City Manager, through the authority granted by the City Council for emergency provisions during the pandemic, authorized Contract No. C41450 with Hinderliter De Llamas and Associates (HdL) to outsource the City's business license functions. This was in response to a significant backlog of licensing applications, poor internal software solutions, local business needs for PPE loans requiring active business licenses, and HdL's ability to supplement staff in the field to follow up on delinquent or unlicensed businesses. HdL assumed responsibility for all business licensing functions, including new applications, renewals, and pursuing delinquent accounts. Staff is currently in the final year of the agreement term.

Starting in August 2023, Development Services staff began a comprehensive evaluation of the business licensing services provided by HdL. This evaluation revealed several significant challenges that have impacted the program's effectiveness. A primary issue identified was the limited access City staff had to the HdL software system, which has created difficulties in assisting customers promptly and efficiently. As a result, staff have depended on HdL for basic tasks, such as providing printed copies of business licenses.

Under HdL's service model, City staff have minimal capacity to address customers' business license needs fully. For example, when a customer visits the Development Services Center to request a printed copy of their business license, staff are required to direct the customer to log into their personal portal to access and print the document themselves or send an email request to HdL asking them to provide a link for the customer to print it. This lack of personal customer service has caused frustration for both staff and customers, who expect a more responsive customer service experience.

A summary of the comprehensive evaluation key findings include:

1. Limited Access to HdL Software
 - One of the primary concerns raised by staff was the lack of access to the HdL software system, which has restricted the staff's ability to assist customers effectively.

- Customer frustration has increased because of this limited access. Customers expect to be able to receive the necessary services directly from City staff, but instead, they are being redirected to the online portal, which has caused inefficiencies and dissatisfaction.
2. Inconsistencies and Complaints from Local Businesses
 - Over the past six months, staff from both Development Services and the Finance Department have held numerous meetings and calls with HdL to address the lack of access and continued complaints from local businesses.
 - These complaints primarily centered on communication issues, inconsistent service delivery, and confusion over how the City's business license program was administered. Despite these discussions, the issues persisted, and local businesses remained dissatisfied with the service.
 3. Compliance Program Suspension
 - In May 2024, the City launched the compliance component of the contract with HdL to address unlicensed and delinquent businesses in the City. This compliance program aimed to improve enforcement and increase license renewal compliance.
 - The compliance program officially launched in July 2024 but was suspended in August 2024 after it became clear that there were significant issues with how the program was being executed by HdL. Among the reasons for suspension were:
 - Inconsistencies in the implementation of the program.
 - Ongoing complaints from business owners regarding how they were being handled.
 - Misinterpretations of the City's business license ordinance that had not been properly communicated to City staff.
 4. Lack of Clear Communication and Policy Alignment
 - Another major issue that became evident was the misalignment between HdL's interpretation of the City's business license ordinance and the City's actual policies. This lack of clear communication led to confusion among local businesses, with some businesses being incorrectly informed about their license status, fees, and renewal requirements.

To date, we have identified over 50 unresolved concerns related to intake processes, documentation, client services, the online portal, fee assessments, and fee collection. The service model provided by HdL has significantly limited the ability of City staff to assist customers effectively. Given these persistent challenges, we believe it is time to pursue a different service model.

Considerations:

1. Bring all business licensing functions back in-house beginning January 1, 2026.

Staff revisited the vendors from the 2021 competitive selection process for managing the City's business license operations and engaged with the second-ranked vendor. While this vendor stated they could address the issues identified by staff, reference checks with municipalities currently using their services revealed that similar problems remain unresolved with those municipalities.

The City's purchase of the Clariti software includes a business licensing module, eliminating the need for additional software purchases to transition licensing operations in-house. Implementation would require a one-time cost of approximately \$100,000 to build workflows and the on-line interface. With an estimated timeline of 15 weeks, the implementation process could begin in the first quarter of FY 2025-26, with a targeted Go-Live date of January 1, 2026. To ensure a smooth transition, it is recommended to wait until after the permitting system has gone live and stabilized before initiating the business licensing module.

Staff from Development Services and Information Technology participated in a Clariti demonstration of the business licensing module. The integrated system offers several benefits, including:

- Streamlining contractor licensing to improve efficiency.
- Automating approvals through GIS/Zoning integration, allowing for same-day license approvals.
- Tracking conditions of approval seamlessly during the renewal process.

This integration enhances overall functionality, supports a more efficient, unified approach to business licensing operations, and provides for the following:

1. Direct Oversight and Control:
 - The City retains full control over the licensing process, ensuring quick resolution of issues (e.g., delays in license approvals) without waiting on a third-party vendor.
 - Internal operations can quickly adjust to changing needs or regulations without relying on a vendor's timeline.
2. Improved Customer Service:
 - An in-house team better understands local businesses and community needs, enabling tailored support and faster resolution of issues.
 - Businesses interact directly with City staff, reducing miscommunication or delays, which was common with our current third-party provider.
3. Building Institutional Knowledge:
 - This will ensure that regulations and rules are correctly interpreted. Over time, City staff will gain a deep understanding of licensing nuances, such as handling appeals or exemptions. This institutional knowledge ensures faster and more accurate responses to inquiries, reducing dependency on vendor-specific knowledge.
 - Additionally, as licensing needs evolve (e.g., new business types like cannabis dispensaries), in-house staff can proactively address requirements without additional vendor costs or delays.
4. Greater Transparency:
 - In-house management fosters greater transparency and accountability and avoids reliance on third-party vendors whose performance may vary or fail to meet expectations, as seen in reference checks with other municipalities.

- Licensing fees, requirements, or delays can be communicated clearly via City channels, ensuring businesses remain informed without intermediaries complicating the process.

2. Establish an annual fixed date for Business Licensing renewals.

The City currently has approximately 5,500 active business licenses, each with its own unique renewal date. This lack of standardization has contributed to several operational challenges, including inefficiencies in renewals, follow-up, and enforcement.

To address this, Development Services proposes a policy change to establish a fixed renewal date of July 1st each year for all business licenses. This change is designed to standardize operations, improve efficiency, and enhance service delivery, benefiting both City staff and business owners. Below are the key reasons for this proposed change:

1. Streamlined Operations and Allocation of Staff Time

- A fixed renewal date will allow for better alignment of internal processes, making it easier to plan and allocate resources throughout the year.
- It will reduce the need for constant adjustments to renewal schedules, which can cause confusion and administrative burdens.
- Staff will be able to prepare more effectively for the peak period leading up to July 1st and ensure that all renewal activities are handled within a set timeframe.

2. Improved Customer Experience

- Ensure that all business licenses renew on the same schedule, preventing discrepancies in expiration dates and minimizing confusion among business owners.
- A standard renewal date makes it easier for the City to communicate with businesses. Renewal notices will be sent on a fixed schedule, ensuring all businesses receive timely notifications well in advance of their renewal deadline. This improved communication reduces the number of customer inquiries and ensures that businesses are better informed about upcoming deadlines.

3. Easier Enforcement and Compliance

- A set renewal date will make it easier for Development Services to track non-compliance and focus enforcement efforts on one annual cycle. It will help avoid gaps in where businesses might be overlooked or unknowingly operate without a valid license.
- Enforcement actions can be planned and executed more effectively with a fixed renewal date, ensuring all businesses renew their licenses in a timely manner.

4. Efficient Fee Assessment and Collection

- With all renewals occurring on the same date, the fee collection process will be more predictable and streamlined.
- A standardized renewal period allows for better tracking of revenues, more accurate budgeting, and improved financial reporting for the City.
- It will eliminate the complexity of managing multiple renewal dates for different businesses, making the tax and fee collection process more efficient.

5. Improved Data Management and Reporting

- A fixed renewal date will allow for easier tracking and reporting of renewal activity. The City can use data to monitor compliance rates, identify trends, and make data-driven decisions to improve the program.
 - It will also support better coordination with other City departments and services that rely on business license data, such as planning, code compliance, and economic development.
 - Improved budget estimations for business licensing and the El Paseo parking and business improvement area.
6. Alignment with Best Practices
- Many cities and municipalities have successfully implemented fixed renewal dates to improve the efficiency of their business license programs. Establishing a fixed date for renewals would align the City with best practices in business license management and help standardize operations across various work groups within the city that interact with business license data (e.g., code enforcement, planning, finance, economic development)

Bringing business licensing in-house will provide the City with increased control, improved customer service, and long-term cost savings. Coupled with the proposed fixed renewal date, these changes will streamline operations, improve enforcement, and enhance the overall efficiency of the business licensing process.

Legal Review:

This report has been reviewed by the City Attorney's Office.

FINANCIAL IMPACT:

In the previous fiscal year, the cost for the HdL contract was \$150,972, and the budget allocation for the current fiscal year is \$180,000. The estimated one-time cost for the software implementation, approximately \$100,000, would be included in the budget request for the next fiscal year and may require a request for one additional code officer (50% of cost supported by Business License) to provide compliance services, estimated at \$53,000.

ATTACHMENTS:

1. Presentation