GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Chief Financial Officer

Natwar M. Gandhi
Chief Financial Officer

MEMORANDUM

TO:	**The Honorable Linda W. Cropp** **Chairman, Council of the District of Columbia**
FROM:	**Natwar M. Gandhi** **Chief Financial Officer**
DATE:	**April 30, 2003**
SUBJECT:	**Fiscal Impact Statement: "Master Business License Repeal Act of 2003"**
REFERENCE:	**Bill 15-178 as Introduced**

Conclusion

Funds are not sufficient in the FY 2003 budget and the proposed FY 2004 through FY 2007 financial plan to implement the "Master Business License Repeal Act of 2003." Implementing the proposed legislation would have a negative fiscal impact of $839,680 in FY 2003 and $504,241 in FY 2004, but would have a cumulative positive fiscal impact of $811,118 for FY 2003 through FY 2007. However, the fund balance for the master business license program could be used to cover costs of making the transition back to the previous business licensing process; this would eliminate the negative fiscal impacts in FY 2003 and FY 2004. This assumes that the master business license program is terminated at the end of FY 2003 and that none of the estimate of $6,788,324 collected under the program is refunded. This also assumes that sufficient local budget authority is provided for FY 2004 forward in local funds would come from reverting to the prior fee structure.

Background

The Master Business License Repeal Act of 2003 repeals the master business license program and revives the business licensure process that was in effect prior to the implementation of the master business license program in FY 2002.

Financial Plan Impact

Assessing the fiscal impact of the proposed legislation requires estimating the amount of revenue and expenditures that will be foregone as a result of no longer operating the master business license (MBL) program, the expenditures required to make the transition to the former business licensure process, and the revenues from and expenditures for operating the reinstated program. The analysis that follows assumes that the current program would be terminated at the end of FY 2003.

Revenue collected under the MBL program is deposited in an O-type fund. The O-type fund was created to make the MBL program self-sufficient, meaning that all operating expenditures for the program are funded from revenues from the program. As Figure 1 indicates, DCRA has budget authority of $2,558,426 for the MBL program in FY 2003. As of March 31st, MBL Fund collections were $1,718,746, and program expenditures were $1,280,845. If the MBL program is repealed, DCRA will most likely collect no further revenue in the MBL Fund in FY 2003. Some portion of the third- and fourth-quarter commitments for the fund will nevertheless be incurred. In the most extreme scenario, if no additional revenue is collected but all planned expenditures take place, the MBL Fund will incur a shortfall of $839,680 in FY 2003.

Figure 1

MBL Program	
Collections as of 3/31/03	$1,718,746
Expenditures as of 3/31/03	$1,280,845
FY 2003 Budget Authority	$2,558,426

However, there is currently $3.446 million in MBL Fund Balance that represents surplus revenue from the MBL program in FY 2002 (see Figure 2). Of that $3.446 million, the Mayor has proposed using $1.5 million to help close the FY 2003 budget gap. This would leave $1.946 million in the fund balance. Because DCRA has budget authority of $2,558,426 in FY 2003, the agency could spend additional funds. For example, these might come from using the MBL Fund Balance to close the $839,680 gap between collections and expenditures.

Figure 2

MBL Fund Balance	
Current fund balance	$3,446,000
Budget gap-closing, FY03	($1,500,000)
Available in FY03 and FY04	***$1,946,000***

Because the MBL program is administered through an O-type fund, foregone revenues will be exactly offset by foregone expenditures if the program is repealed (see Figure 3). In the proposed FY 2004 budget, $3.1 million of revenue has been certified for the MBL program. For subsequent years, the $1.05 million estimate reflects estimated MBL renewal fee collections.

Figure 3

Item	FY 2004	FY 2005	FY 2006	FY 2007	TOTAL
Foregone revenue	($3,100,000)	($1,050,000)	($1,050,000)	($1,050,000)	($6,250,000)
Foregone expenditures	$3,100,000	$1,050,000	$1,050,000	$1,050,000	$6,250,000
Total	$0	$0	$0	$0	$0

The Master Business License Repeal Act of 2003 does not explicitly call for the refunding of fees collected under the MBL program. However, if a policy decision is made to refund the fees collected to date, DCRA estimates that amount to be about $6.8 million.

Under the reinstated business licensing program called for in the proposed legislation, revenues would revert to the general fund. Beginning in FY 2004, a local funds operating budget would therefore be needed for the startup and operation of the program. Additional local funds budget authority for FY 2004 and the out-years would need to be included in the Budget Support Act of 2004 (already proposed to Council by the Mayor).

Reinstating the previous business licensing program will require some programmatic investment, including creating new forms, revamping databases, revamping the web site, developing and testing new software, and making any necessary changes to the one-stop center that DCRA created for the master business license program. DCRA estimates that these one-time restructuring costs will total approximately $1 million.

Operating the program will require about 28 of the existing master business license staff to process licenses and perform compliance investigations and enforcement activities. Other costs include postage and supplies for mailings and administrative support costs. DCRA estimates that administering the revived program will cost approximately $2.28 million.

Offsetting the costs to start-up and operate the reinstated licensing program will be the revenues collected from licensing fees. From FY 1998 through FY 2001, business licensing fee collections fluctuated year-to-year, averaging approximately $3 million per year. Thus, $3 million is used as an estimate for the annual fee collections under the reinstated program.

If DCRA begins the transition to the reinstated program at the start of FY 2004, then it will incur all the costs of the transition in FY 2004 and will not have the reinstated program fully functioning until at least several months into the fiscal year. Therefore, the first-year estimates for revenues and expenditures have been discounted by 25 percent. As a result of the start-up costs, there is a projected negative impact of $504,241 in FY 2004. However, there is sufficient budget authority in FY 2004 ($3.1 million) such that the remaining MBL Fund Balance could be used to offset this shortfall, if that is policymakers' decision.

Based on these inputs, Figure 4 shows the fiscal impact of the Master Business License Repeal Act of 2003:

Figure 4

Item	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	TOTAL
Repealed MBL Program						
Budget authority Less Collections to-date	($839,680)					($839,680)
Reinstated Business Licensing Program						
Start-up costs	$0	($1,043,000)	$0	$0	$0	($1,043,000)
Operational costs	$0	($1,711,241)	($2,281,654)	($2,281,654)	($2,281,654)	($8,556,203)
Licensing Fee Revenue	$0	$2,250,000	$3,000,000	$3,000,000	$3,000,000	$11,250,000
Total	($839,680)	($504,241)	$718,346	$718,346	$718,346	$811,118

Again, although Figure 4 indicates a negative fiscal impact of $839,680 in FY 2003 and a negative fiscal impact of $504,241 in FY 2004, using the MBL Fund Balance would eliminate these negative impacts.