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CHICAGO LICENSING AND PERMITTING REFORM

*Paper Series: Regulatory Reform for the 21st-Century City, an
Initiative of the Ash Center for Democratic Governance and
Innovation*

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Abstract

Taking office in 2011 amidst a challenging global economic downturn, Mayor Rahm Emanuel sought to jumpstart the Chicago economy and create thousands of new jobs. To do so, Mayor Emanuel sought to stimulate Chicago's vibrant small business sector, supporting its growth and fostering job creation and economic vitality. Small businesses employ nearly half of Chicago's workforce, yet business owners complained that burdensome and often obsolete regulations cramped their capacity to grow and add jobs.

Like many cities, the legacy regulatory system in Chicago was complex, hindering entrepreneurs as they sought to launch and burdening small businesses with complex and ongoing compliance obligations. In May 2012, Chicago passed a landmark reform ordinance to reduce the number of license types from 117 to 49, a reduction of 60%. The reform—by simply reducing the number of license categories—saved Chicago small businesses \$2 million in license fees each year, money that they could instead reinvest in their businesses and communities. In addition to this reduction in licenses, Chicago reengineered its business inspections process and put into place neighborhood-based resources that help business more efficiently navigate and adhere to the City's regulatory regime. Energizing business growth with smart, business-friendly regulation was the Mayor's primary goal, and ensuring public safety and strong consumer protections were guiding principles. This case study describes the significant regulatory reform undertaken and the infrastructure put into place by the City of Chicago to improve the regulatory environment for small businesses.

Impetus for Reform

Small businesses and entrepreneurship drive innovation and economic growth in American cities—small businesses, and the jobs they produce, are crucial to the economic health and prosperity of cities. At the same time, cities use regulation to balance significant public interests with the urgent need to promote economic growth and innovation. Local regulations address important concerns in consumer protection, fair market competition, public health, and quality of life.

An effective regulatory program must be reviewed periodically to ensure that it remains relevant to current business conditions and community needs. When overlooked, the

regulatory regime of a city can become burdensome and obsolete—obstructing economic growth and inhibiting new enterprise. Complicated, unnecessary, and expensive permitting and licensing procedures pose significant barriers to new businesses. Thus, regulatory reform aimed at simplifying the process to launch and grow a business and eliminating unnecessary barriers for entrepreneurs and business owners can have a positive effect on employment and economic growth.

In Chicago, small businesses support nearly half of Chicago's workforce, a fact that illustrates the major role that small businesses play in the City's economy.¹ Mayor Rahm Emanuel recognized that addressing the City's regulatory barriers and inefficiencies was paramount to improving job creation and growth in Chicago.

Chicago's "Plan for Economic Growth and Jobs" was released in March 2012 and identified the city's inefficient regulatory systems as one of the principle impediments for businesses and entrepreneurs. Writing that "businesses must often navigate a complex bureaucracy to accomplish routine tasks such as licensing their operations and obtaining building permits," the report found that Chicago licensing processes were redundant and confusing, system errors and internal bureaucracy delayed approval times, and inspection times were dragged down by unnecessary repeat visits.

To jump start the reform effort, Mayor Emanuel charged his newly created Innovation Delivery Team ("the team")² with overhauling the City's business permitting and licensing processes without compromising the ability of city departments to protect consumers and citizens, and to develop considered strategies to foster small business growth.

Understanding the Problem

The team quickly settled on a strategy to reduce the regulatory burden on businesses in Chicago—reforming licensing and permitting processes to reduce wait times for small businesses. To anchor this "Time in Line" approach, the team set out to thoroughly understand the problems in small business regulation and develop new, effective approaches. The team conducted an assessment of the regulatory landscape, engaged stakeholders and end-users, analyzed data, and examined models used in other cities to inform Chicago's approach.

¹ City of Chicago's Neighborhood Small Business Growth Strategy (<https://www.cityofchicago.org/content/dam/city/depts/bacp/Small%20Business%20Center/smallbusinessstrategy.pdf>)

² Innovation Delivery Teams are units for developing and delivering new approaches in top mayoral priority areas. Conceived and supported by Bloomberg Philanthropies, these teams work exclusively on two or three priority areas at a time, implementing a deliberate approach for bringing meaningful results in an accelerated timeframe. For more information on Innovation Delivery Teams, visit www.bloomberg.org/innovationdelivery.

Assessing the Regulatory Landscape

The team scanned the regulatory landscape in Chicago as experienced by businesses and new entrepreneurs, and reviewed the City's regulatory history. The team sought to understand the problem through two lenses: what are the main regulatory process impediments to businesses, and what are the governing requirements that had led to the existing regulatory environment.

To better understand how business owners experienced existing processes, the team conducted a complete mapping of the licensing process for small businesses. Members of the team proceeded through licensing and permitting application processes, playing the role of business owners from various sectors. Doing so, they experienced first-hand the progression that real business owners were expected to understand and navigate in order to open shop or remain open. This mapping demonstrated clear shortcomings in the regulatory process: the need to visit, call, or engage with multiple departments; a lack of communication between departments involved in awarding a single license; ineffective data management systems; and the reliance on duplicative applicant actions.

In addition, the team discovered that the restaurant industry—which accounts for roughly 10% of Chicago's small business market—faced a particularly lengthy licensing and certification process, which included separate inspections visits from multiple city agencies over the course of a number of weeks.

To understand the regulatory history and circumstances that had caused the existing regulatory environment, the team conducted a historical analysis of the management of business license categories. They looked at Chicago's history of license reforms to understand how the number of licenses had ballooned over the years. They found that in 1996, Mayor Richard Daley succeeded in restructuring the City's license and codes. However, the restructuring was not sustainable, as the number of licenses increased whenever a business not covered by existing license categories was established. The team's findings created a clear understanding in the Mayor's Office that reducing the number of licenses would have to be accompanied by improving the conceptual framework of licensing in general to avoid the problem recurring down the line.

At the time the team began work, Chicago had more than 110 unique license types. Hypothesizing that the elimination of unnecessary license types would be a clear and achievable improvement, the team also examined and cataloged each of the City's license types to begin to identify potential areas of redundancy.

Empirical Evidence and Use of Data

The team set out to more precisely understand the existing regulatory landscape using data to quantify volume, time, resources, and level of effort. The team worked collaboratively with agencies, utilizing the significant amount of data collected to describe the problem and establish initial baselines. They analyzed licensing, inspections, permitting, and holds data from the City.

The findings from this analysis were illustrative of many of the underlying challenges licensing and permitting posed for businesses. Analysis of the city data revealed some key facts that informed the work:

- There were 117 unique business license types;
- Approximately 17% of zoning licenses were not being processed and sent back due to insufficient information;
- Over 1,300 buildings required more than three different inspections each year;
- The median start-up time for a new restaurant was more than two months; and
- Only 42% of new restaurants passed their first health inspection.

The complexities and inefficiencies demonstrated by this empirical analysis represented a substantial cost for businesses and a drain on scarce resources. In addition to direct costs associated with fees for redundant license applications and renewals, small business owners were also forced to absorb non-revenue days during the period of waiting for permits and inspection approvals and to dedicate time to managing a cumbersome, inefficient process.

Stakeholder and End-user Engagement

The City's reform effort included a host of activities to engage stakeholders and learn from people who experience the City's regulatory processes on a routine basis. In order to identify challenges in the licensing, permitting, and inspections process, the team conducted 25 roundtables with small business owners and managers and also with frontline staff working in the city departments charged with licensing and permitting. These roundtables generated a deep understanding of the process, and also new thinking about innovative ways to redesign each process. For many city departments, this platform was one of the first opportunities to collaborate with each other and have the space to think innovatively about improving city services. The conversations resulted in a consensus that the existing processes and service quality were poor and in need of improvement.

In addition to these roundtables, the team consulted with business owners and local economic development organizations such as Chambers of Commerce. They interviewed city personnel, including senior and front-line staff, to assess the challenges facing people within city government that are tasked with supporting small business owners and entrepreneurs. Additionally, they shadowed various interactions between

small business owners and city staff, including at the business center, during inspection scheduling, and during permit plan review (See Figure 1).

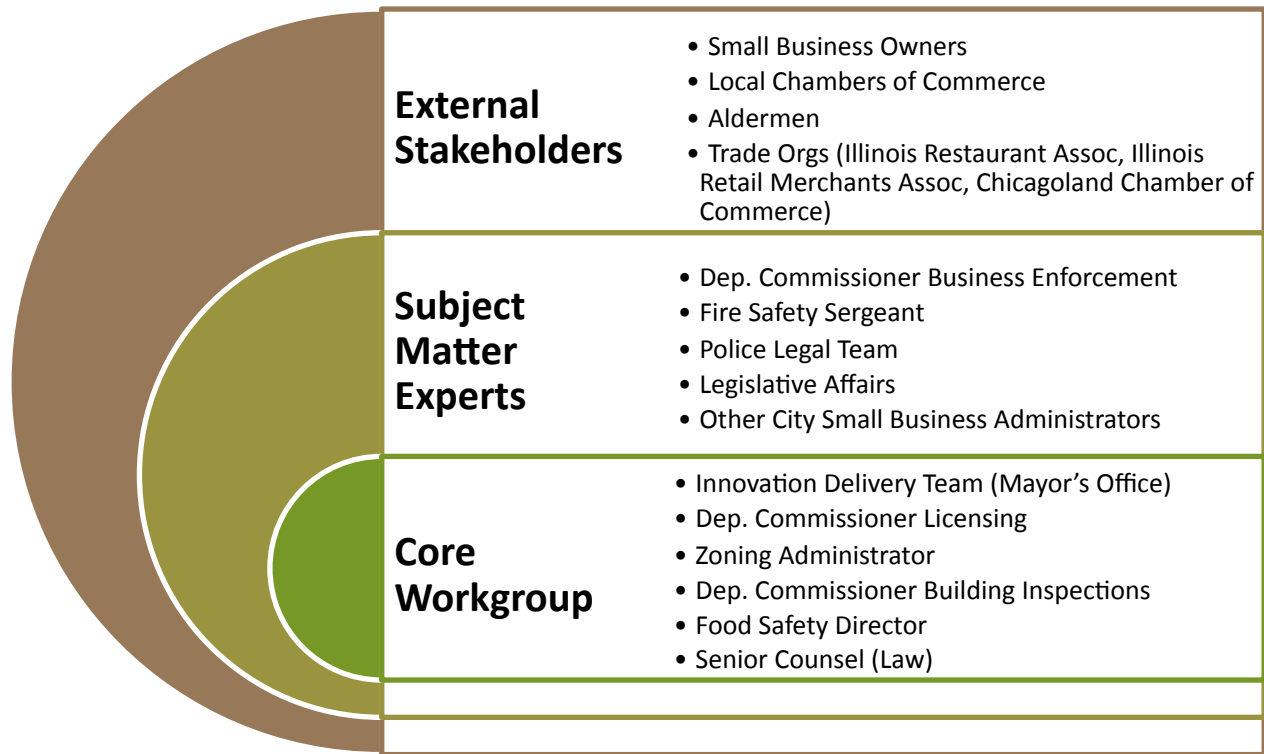


Figure 1: Stakeholder and End-User Engagement Participants, Chicago Licensing and Permitting Reform

These activities were designed to engage “end-users” and they informed a list of issues that were consistent with the findings from the data analysis: Chicago’s licensing and permitting processes were too long and had too many requirements; it took too much time, and too many trips, to secure a permit; there were too many inspections, with inconsistent criteria; and the City did not offer consistent information the resources available for small businesses.

Horizon Scan

To better understand how Chicago’s regulatory environment compared with that of similar cities around the country, as well as to research models and best practices that would inform the reform effort, the team conducted a comprehensive horizon scan. The scan examined models in other cities, states, and federal examples to identify ideas and solutions that might be replicable in Chicago.

The research highlighted the complexity of Chicago’s regulatory environment, even compared to other large cities. Chicago’s 117 license types greatly exceeded the number

in Charlotte (66), New York (58), Philadelphia (50), Phoenix (40), Washington, D.C. (100), and many other major municipalities.

The team also identified Philadelphia as an example of a major city with recent success in implementing regulatory reform. In 2009, Philadelphia cut the number of business license types from 148 to 50, a greater than 65% reduction. Interested in the keys to their success, the team reached out to Philadelphia for guidance as they developed Chicago's strategy for license reduction.

The team also looked at alternative approaches in Atlanta, which keeps a registry of businesses and relies on the State of Georgia to issue business licenses, and in Los Angeles, which issues a single business certification. The team also looked at technology used by other municipalities to ease the experience of small business owners interacting with government, and to track business progress and application status, such as Dallas' one-stop shop online portal and Philadelphia's customized application status dashboards.

Synthesizing the Key Issues

The extensive scan carried out by the Chicago Innovation Delivery Team identified significant delivery challenges with the core business licensing and permitting process. The top nine license types accounted for 8% of active licenses for small business while 42 license types account for the bottom 1% of active licenses. Communications to customers about the permitting and licensing application process were unclear, with the result that applicants often visited or called multiple departments to request a permit and initial errors in forms often led to significant delays in the approval process. In fact, it was common place for customers to bounce around between city departments until a specific person knew how to address their problems. There was no coordination between departments resulting in delays and duplicative work across agencies.

The Chicago team concluded that the licensing and permitting regime was misaligned with its regulatory intent—licenses were used to track information, rather than to protect businesses and citizens. This conclusion led the City to understand the real need for structural reform. Chicago would commit to downsizing license types while simultaneously anticipating market changes and prevent the expansion of regulations in the future. The City's focused engagement with entrepreneurs and small business owners during the exploratory phase of the work also highlighted the need to better coordinate local resources from Chambers of Commerce, and better serve the needs of individuals opening small businesses, once their licenses and permits were approved.

Designing an Ambitious Reform Agenda

Recognizing that the City's licensing system was too burdensome and complex to navigate, and that the permitting and inspection processes were too difficult to comply with, the City set out to make significant reforms.

The City worked with the small business community, Chambers of Commerce, the Department of Business Affairs and Consumer Protections, Aldermen, and other partners to develop a three-part strategy to support small business growth: consolidate the regulatory codes and licenses to reduce the burden on businesses; implement innovative technological or structural changes to enable better services for small businesses; and improve services provided to small businesses directly in their own neighborhood.

The City identified a core set of projects and set ambitious goals. They sought to reduce the number of licenses by over 55%, improve health inspection pass rates by over 65%, and reduce the average time to open a new restaurant by three weeks, in addition to many other targets. With the support of the mayor, the team worked closely with partners in City agencies to design the various components of the strategy for small business growth.

Eliminating Complexity, Empowering Businesses

Chicago sought to complete an in-depth review and assessment of the existing City codes and licenses issued. The review would be conducted with an eye for redundancy, with the goal being to consolidate and eliminate licenses wherever possible. To prepare for this task, the City conceived a three-tiered structure for bundling licenses by type and objectives (lightly regulated, moderately regulated, and heavily regulated). This bundling helped segment licenses that sought to fulfill specific regulatory requirements into clearer subsets, simplifying the task of eliminating redundancy without sacrificing regulatory control or consumer protection.

Chicago also identified the need for a new type of business permit for emerging businesses. The purpose of the permit would be to serve as a temporary permit, lasting for two years, to get new and innovative businesses that do not fall into an existing licensing category—food trucks or hydroponic farms, for example—up and running faster. The permit was conceived as part of the licensing reduction ordinance as a strategy for ensuring that the number of licenses does not balloon up again in the future.

Better Service

While addressing the complexity of City's licenses and codes would be paramount, Chicago also recognized the need to enact process changes to improve services, including reengineering the process for license application, review, and issuance. This

work would aim to address the significant time and system knowledge required to successfully navigate licensing and permitting application processes. Rather than expecting small business owners to visit multiple city departments, complete duplicative forms, and commit dozens of hours to guarantee compliance, the City would pursue simpler, more intuitive methods for engaging with and supporting small business owners and entrepreneurs. These new processes were supported by the implementation of new technologies such as a one-stop online portal, which allows businesses the ability to apply for a license/permit, access educational material, link to key sites (*e.g.*, zoning), ask questions, and discuss business issues with others, and a secure site for businesses and residents that compiles all information pertinent to a business account.

Based on the lessons learned during their work to understand the problem, the City and its partners decided to begin this effort by piloting a reengineered process with the restaurant industry. Data had revealed that restaurants had the most regulations and the greatest inefficiency in their process. For example, if a restaurant wanted to have patio seating and serve late night drinks, there were separate processes for zoning, late license hours, liquor license hours, health inspections, and construction permits. In addition, restaurants comprised the largest category of small business employers, totaling 10% of all small business jobs in the City. Based on these facts, the City was confident that if the piloted process demonstrated success with restaurants, it would be quickly scalable to other industries and classes of small businesses.

Local Access to Services and Support

The third tier of Chicago's regulatory reform agenda was for the City to develop its first ever local business growth strategy, which would focus on four goals to improve services available to small businesses in their own community:

1. Empower local chambers of commerce to deliver customized business counseling
2. Foster neighborhood engagement with the local business community
3. Drive neighborhood economic vitality by attracting businesses to targeted locations and corridors
4. Enlist small businesses in making their neighborhoods safer for business

The Neighborhood Small Business Growth Strategy would provide local support for small businesses looking to get off the ground, with a strong focus on customer service. The City wanted to pursue the development of a one-stop-shop in small business centers, allowing a business to apply for various licenses and permits in one location, and reducing the overall time required to complete application processes. The City believed this type of local support would eliminate much of the inefficiency and frustration experienced in the current process.

Enacting the Reform

Chicago embarked on a rapid process to prepare for the implementation of core reform efforts. Mayor Emanuel led the effort in garnering support for the proposed changes, and the City began the execution of improvements in each of the three tiers of its reform strategy.

In the winter of 2011, Mayor Emanuel announced his commitment to making changes to the City's code at a cabinet meeting. Commissioners were asked to delegate staff to a workgroup that would be tasked with reviewing the code and proposing specific changes. The workgroup was charged with developing a specific proposal that achieved a balance between easing the pathway for new businesses and continuing to protect consumers.

The workgroup designed a new framework for categorizing business licenses that sorted licenses into three groups: general licenses, called Limited Business Licenses (LBLs); regulated business licenses, or licenses for businesses that had moderately restrictive regulations that required more than just LBLs; and specialty licenses, such as liquor licenses. The workgroup used this framework to help identify groups of licenses that could be collapsed into a single license, as well as licenses that could be eliminated altogether. Decisions about which licenses to cut, consolidate, or keep were driven by a smart enforcement approach—reducing enforcement of low public safety risk violations, and maintaining heavy enforcement of businesses engaged in consumer fraud, deceptive practices, unfair competition, etc.

By late winter, the workgroup had drafted an ordinance for changes to the code that would drastically reduce the number of business licenses. The ordinance included a combination of strategies: outdated licenses were repealed; businesses who acquired specific industry licenses were no longer required to get general licenses; and a number of specific licenses that were similar were combined. The ordinance also included authorization of the temporary Emerging Business Permit (EBP) to help new, unregulated businesses get up and running faster while ensuring compliance with city regulation. The EBP ended the practice of creating new regulations every time a new type of enterprise entered the picture.

Mayor Emanuel met with Aldermen in groups of ten to brief them on the ordinance and garner their support. In May 2012, City Council unanimously passed the ordinance.

In conjunction with the passing of the ordinance, the City had to ensure that the reduction in licenses and the changes to process would not negatively impact businesses. The City made updates to its technology infrastructure and database in phases so as not to disturb businesses.

The City followed the licensing reform effort with a nuanced approach to change enforcement. The City shifted the focus of its enforcement effort and resources to consumer fraud, and away from operational elements (*e.g.*, not having the right license). The City's enforcement team was expected to be more strategic about targeting fraud; a new rule shifted the target of written fraud enforcements to at least 50%.

To effectively design the restaurant startup pilot and prepare for implementation, Mayor's Office staff worked with the Illinois Restaurant Association (IRA) to get a better understanding of the challenges new business owners were facing in the process. The IRA helped the City home in on core difficulties for restaurant owners: the process of getting licensed was too confusing and it took too long to get an inspection. These issues put new restaurant owners in a bind: they had often signed a lease and built a financing plan around the restaurant opening on a date certain. Persistent delays in getting licenses and inspections pushed their scheduled opening and introduced greater fragility into their business plans.

With these core issues identified, the City then worked to identify and assess the various system contact points between the City and entrepreneurs seeking to start a restaurant (*i.e.*, the Zoning Ordinance Administration, Department of Buildings, and the Department of Business Affairs and Consumer Protection, etc.). The City mapped and analyzed the process by reviewing the specific questions, requirements, and steps stemming from each point of contact, identifying potential improvements that would speed up the process along the way. The results of this effort suggested that simple fixes—a standard questionnaire, a triaging system, and a compliance checklist—could yield big results in significantly reducing restaurant start-up time and improving inspection pass rates.

The pilot incorporated these quick fixes into process improvements for multiple areas, including better in-person and virtual resources for new restaurants, reductions in the number of inspections, and greater clarity about inspections criteria. Chicago launched the restaurant startup program in June 2012.

Guided by the principles of its Small Business Growth Strategy, as well as the lessons learned from the design of the restaurant startup pilot, the City then created a Small Business Center to bring the new and efficient processes directly to small businesses. Focused on the principle of ensuring that government would not pose an obstacle to small business, the City collocated resources, processes, and staff and eliminated the need for business to make multiple visits to city agencies. Additionally, the City introduced an express lane, designed to serve customers with basic needs faster, thereby drastically reducing wait times.

Results

The regulatory changes driven by Chicago's strategy for small business growth resulted in dramatic improvements to the regulatory process for small businesses and entrepreneurs and a significant improvement in the business climate in Chicago. They also generated clear economic benefits.

The passing of the licensing ordinance reduced the number of licenses in Chicago by 60%, from 117 to 49. As a result, businesses need to obtain fewer licenses, saving them money and time. In addition, fewer business owners will get hit with fines for technical violations. Over 6,000 businesses will no longer require a general business license, and businesses such as motor vehicle retail stores and day care centers will no longer need multiple licenses to operate. Additionally, as of September 2014, the City has issued its first Emerging Business Permit to a food business. All in all, it is estimated that over 10,000 small businesses will see an annual savings of over \$2 million.

In addition to consolidating licenses where appropriate, the ordinance dismantled licenses that were not needed anymore, which helps City inspectors conduct smarter enforcement—spending less time on outdated licenses and more time focusing on potential problem businesses. For example, specific regulations and enforcement activity for tobacco vending machine licenses, very few of which were still in operation in the City, were eliminated.

The restaurant start-up pilot proved to be very effective. Participating restaurants saw a reduced start-up time of 33%, and the inspections pass rate increased from 42% to 72%. By the end of August 2012, only two months after the pilot launched, 120 restaurants were in the pilot, and 50 had completed the startup process altogether. Following the pilot launch, the City developed a restaurant start-up guide and website geared specifically toward small restaurant business owners, and tested out various proposed models with owners before final implementation.

The reengineering of the license and permitting process has generated clear improvements for small business owners. Application requirements are more clearly laid out, equipping new businesses with better information to get launched more quickly. The City's reform initiatives have dropped the average time required for zoning reviews from between seven and fourteen days down to 48 hours. The Departments of Buildings and Public Health reduced the 17 page restaurant application to only three pages, and have set a service-level agreement to review plans within two week to ensure permits are issues in a timely matter.

The introduction of the one-stop-shop Small Business Center has also been a success. The express lane, which allows individuals needing "quick fixes" to receive help quickly, now allows 25% of walk-ins to be addressed in 10 minutes or less. The addition of staff members with expertise in zoning and health regulations has eliminated many of the frustrations previously experienced by business owners as they apply for new licenses.

The City has also emphasized strong training for staff members at the Small Business Center to help business owners navigate the regulatory landscape.

The City's changes have also institutionalized opportunities for continuous improvement. For example, weekly training time was set aside each week for all Small Business Center staff to come together, improve their skills, and identify improvements in how the City interacts with customers.

The Chicago regulatory reform strategy has been a success. Small business owners report that the licensing process is more streamlined, efficient, and user-friendly. The Emmanuel administration is committed to making all permitting paperless by 2016, further advancing its small business reform agenda. The City of Chicago serves as a model for regulatory reform, advancing its commitment to making Chicago one of the friendliest cities for small businesses in the United States.

ABOUT THIS PROJECT

The Regulatory Reform for the 21st-Century City project, funded by the Smith Richardson Foundation, is exploring, identifying, and developing a best practice framework and accompanying resources for cities seeking to learn more about regulatory reform. This work addresses the fine balance between public health and safety and economic development in regulation at the local level. As part of this project, this paper series is a resource for those US and international cities looking to learn more about regulatory reform, as well as those interested in replicating and adapting best practices to streamline regulatory development, licensing and permitting, and compliance in their own cities.

ABOUT THE SERIES EDITOR

Stephen Goldsmith is the Daniel Paul Professor of the Practice of Government and the Director of the Innovations in American Government Program at Harvard's Kennedy School of Government. He currently directs [Data-Smart City Solutions](#), a project to highlight local government efforts to use new technologies that connect breakthroughs in the use of big data analytics with community input to reshape the relationship between government and citizen. He previously served as Deputy Mayor of New York and Mayor of Indianapolis, where he earned a reputation as one of the country's leaders in public-private partnerships, competition, and privatization. Stephen was also the chief domestic policy advisor to the George W. Bush campaign in 2000, the Chair of the Corporation for National and Community Service, and the district attorney for Marion County, Indiana from 1979 to 1990. He has written *The Power of Social Innovation*; *Governing by Network: the New Shape of the Public Sector*; *Putting Faith in Neighborhoods: Making Cities Work through Grassroots Citizenship* and *The Twenty-First Century City: Resurrecting Urban America*; and *The Responsive City: Engaging Communities Through Data-Smart Governance*.