



MEMORANDUM

To: Mayor and City Councilors
From: Rich Olson, City Manager
Date: January 9, 2013
Re: Consideration – Privilege License Fees for Internet Sweepstakes Cafes

BACKGROUND:

On December 14, 2012, the North Carolina Supreme Court determined that internet sweepstakes cafes violated NCGS 14-306.4 in its ruling on the Hest Technologies case. The Supreme Court ruling took effect on January 3, 2013, at which time the City of Elizabeth City Police Department ordered all cafes to be closed. Staff has begun the process of revoking the Conditional Use Permits required to operate those businesses.

Staff has been approached by operators of the cafes requesting a rebate or pro-rata refund of the privilege license fees they paid this fiscal year. The City bills for privilege licenses in August of each year and the vendor is required to pay the fee by September 1.

Below is a table indicating the amount the City has billed and the amount each operator has paid. Past Times Sweepstakes, located at 1419 W. Ehringhaus Street has not paid the amount billed by the City after numerous attempts by staff to collect the amount owed.

NAME OF BUSINESS	ADDRESS	AMT BILLED	INTEREST	AMT PD	BAL DUE
TRIPLE S INTERNET CAFE	915 S MAIN ST	22,025.00	1,101.25	23,126.25	PAID IN FULL
LUTHER'S INC dba SWEEPSTAKES	1016 W MAIN ST	16,025.00	-	16,025.00	PAID IN FULL
PAST TIMES	1419 W EHRLINGHAUS ST	20,500.00	2,001.32	8,738.50	13,762.82
WINNERS INTERNET SWEEPSTAKES	900 W EHRLINGHAUS ST	16,000.00	-	16,000.00	PAID IN FULL
		74,550.00	3,102.57	63,889.75	13,762.82

ANALYSIS:

The City has never refunded privilege license fees to a business. However, the City only charges one half of the required fee if the business starts operations after January 1 of the year.

During preparation of the 2012-2013 budget, staff included \$74,550 in anticipated revenue from these businesses in the budget. If the Council decides to refund or rebate a part of the privilege license fee to the internet café operators, a corresponding amount of cuts will need to be made to the General Fund.

These businesses knew there was a possibility that the Supreme Court could rule against them prior to paying their 2012-2013 privilege license fees and chose to take that risk. Refunding or rebating a part of the fee would establish a precedent for other businesses to request a refund or rebate.

The Finance Committee discussed this matter during their meeting of January 9, 2013 and recommends that the City not refund or rebate any privilege license fees for Internet Sweepstakes Café operators.

STAFF RECOMMENDATION:

By motion, deny the request from the Internet Sweepstakes Café operators to refund/rebate a part of their 2012-2013 privilege license fee.

RCO/vdw