



11930 Cyrus Way • Mukilteo, WA • 98275

City Council Land Use & Economic Development Committee
Wednesday, August 17, 2016
6:00-7:30 p.m.
Executive Conference Room

Meeting Report

Attendees:

Committee Members: Councilmember Emery; Councilmember Whelpley

City Staff: Policy Analyst Liias, Community Development Director Love, and Senior Planner Ritter

Chamber of Commerce: President and CEO Martin

Absent: Councilmember Wheeler

Public: Charlie Panczerwski

Meeting Objective:

1. Approve Meeting Notes of July 20, 2016 meeting

The Meeting Notes of July 20, 2016 were approved

2. Preliminary Annexation Revenue Analysis (Phase1)

Policy Analyst Liias presented information regarding the initial projections of major revenue streams for the proposed Phase 1 annexation and provided an overview of each revenue source. The numbers are preliminary at this point and the City does not currently have the numbers for the storm drainage utility charges. Currently, based on the information provided, the City is projecting a low revenue stream of approximately \$256,179 and a high revenue stream of \$303,847.

The Committee discussed the projected revenue for Phase 1 of the proposed annexation and the affect it will have on each department. The Committee asked for additional information about expenditures by department and to review the Police and Fire Departments call data.

3. Business License Reform Discussion

Policy Analyst Liias presented an overview and history of the City's business license process. Attached is a copy of the presentation.

The Committee discussed the need to reform the business license program to bring the fees in line with current fees for 2016. The Committee directed staff to place this item on the City Council agenda for further discussion at a work session.



CITY OF

MUKILTEO

**Business License Reform
Land Use & Economic Development Committee
August 17, 2016**



Overview

- **Business License 101**
- **History of Current System**
- **Issues Identified in 2015 Review**
- **Solutions Considered**
- **Staff Recommendation**
- **Other Suggestions**



Business License 101

\$113.50 + FTE fee

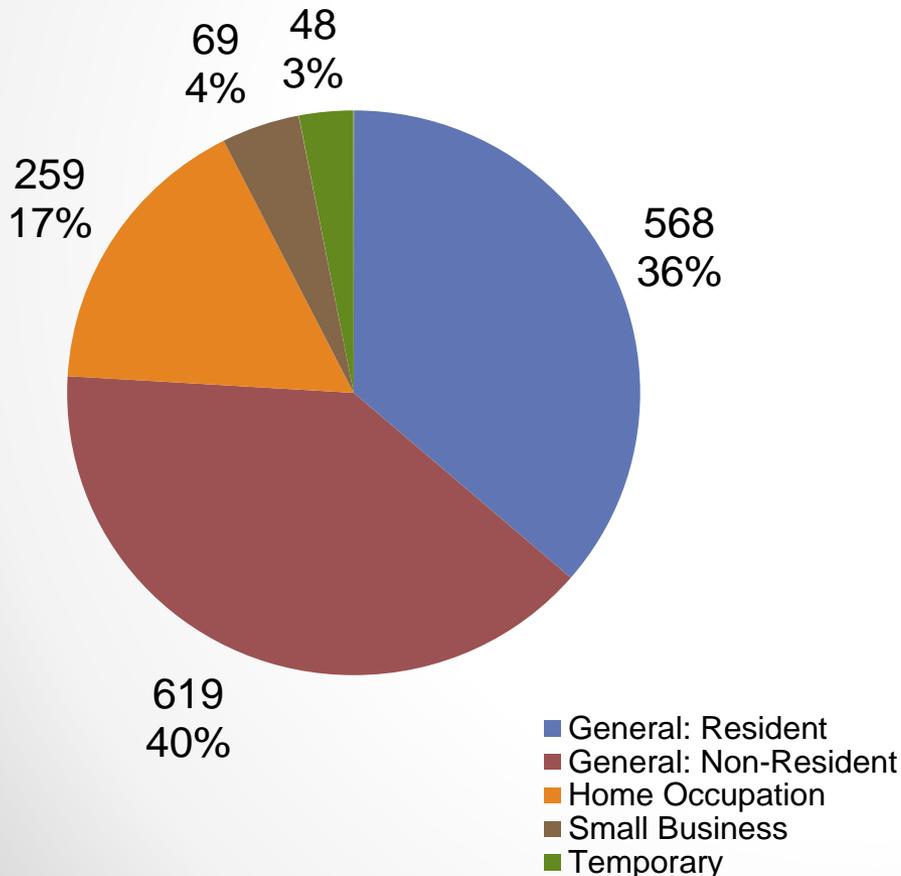
(FTE fee = \$0.0228 per employee hour worked in the City)

Example Fee Structure	Employees	Hours Worked	Total License fee
Largest employer	1,288	2,338,560	\$53,432.67
Average employer	4	8,279	\$302.26
Sole proprietor	0	0	\$113.50



Business License 101

Annual Business Licenses



- Three license categories:
 - Annual business license
 - Three types of businesses: Resident, Non-Resident and Home Occupation
 - Cost: \$113.50 plus FTE fee
 - Small business license
 - Annual gross income of less than \$5,000
 - Cost: \$25
 - Temporary business license
 - 30 day license to operate, may be renewed once
 - Cost: \$30



Business License 101

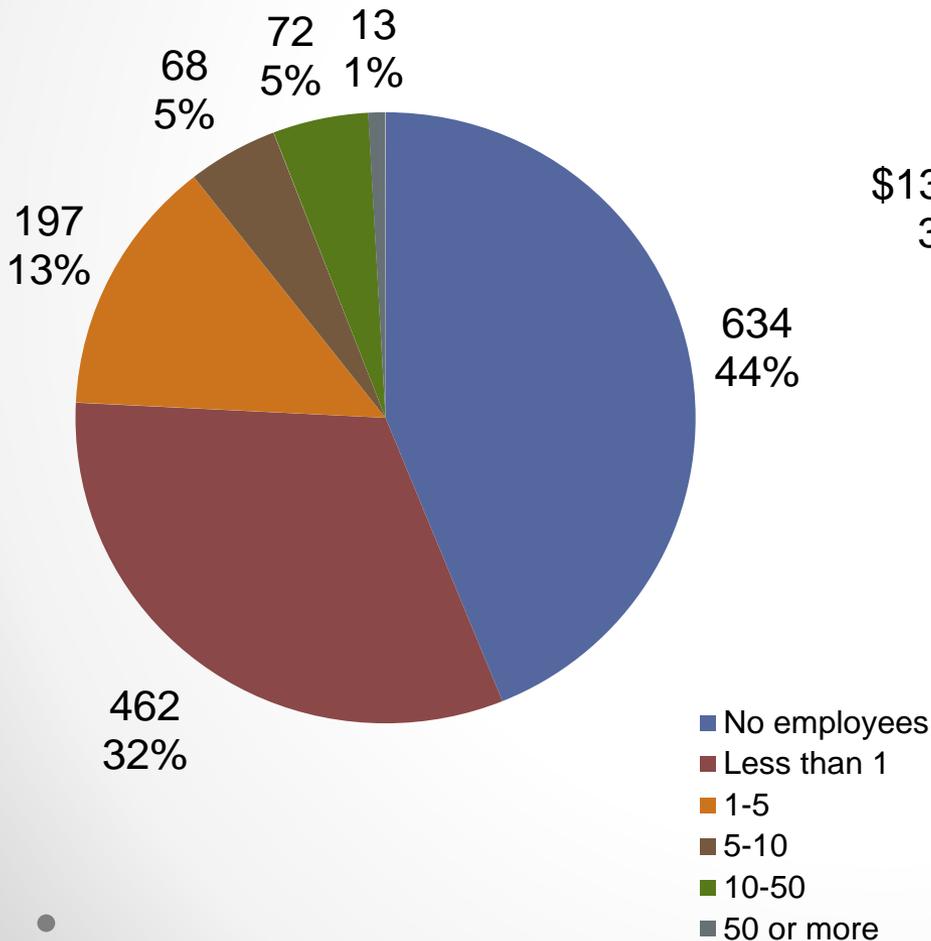


- Exemptions from licensing (MMC 5.04.030)
 - Non-profits and charities
 - Banks
 - Farmers, except marijuana
 - Honorably discharged veterans
 - Any business exempt under state or federal law
 - Public utility companies
 - Special events and vendors
 - Garage sales
 - Newspaper carriers under 18 years
 - Nonresident delivery of goods
 - Nonresident PO Box only

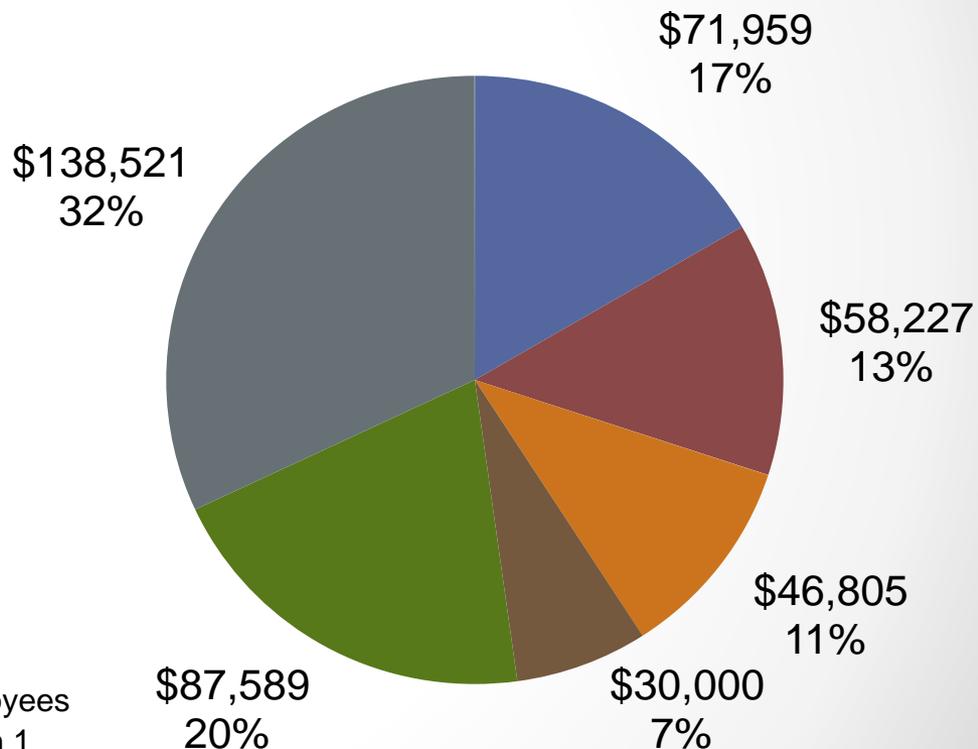


Business License 101

FTEs



Fees





Business License 101

- Top 10 employers and total fee paid

Employer	Employees	Hours Worked	Total License fee
#1	1,288	2,472,960	\$53,433
#2	400	876,755	\$20,104
#3	539	874,550	\$20,053
#4	168	308,338	\$7,144
#5	175	300,960	\$6,975
#6	105	259,220	\$6,024
#7	80	175,036	\$4,104
#8	110	172,931	\$4,056
#9	96	152,613	\$3,593
#10	98	150,150	\$3,536



History

- Ordinance 100 (1963) established the first business license fees of \$2 per year for peddlers and solicitors
- In 1971, the City passed a requirement that all resident businesses operating within the City have a license, initially set at \$1 for a perpetual term
- In 1979, the City established an annual business licensing requirement with an annual fee of \$20
- In 1995, the City Council approved the current licensing categories and established fees by resolution, increasing the base license fee to \$61 in 1996

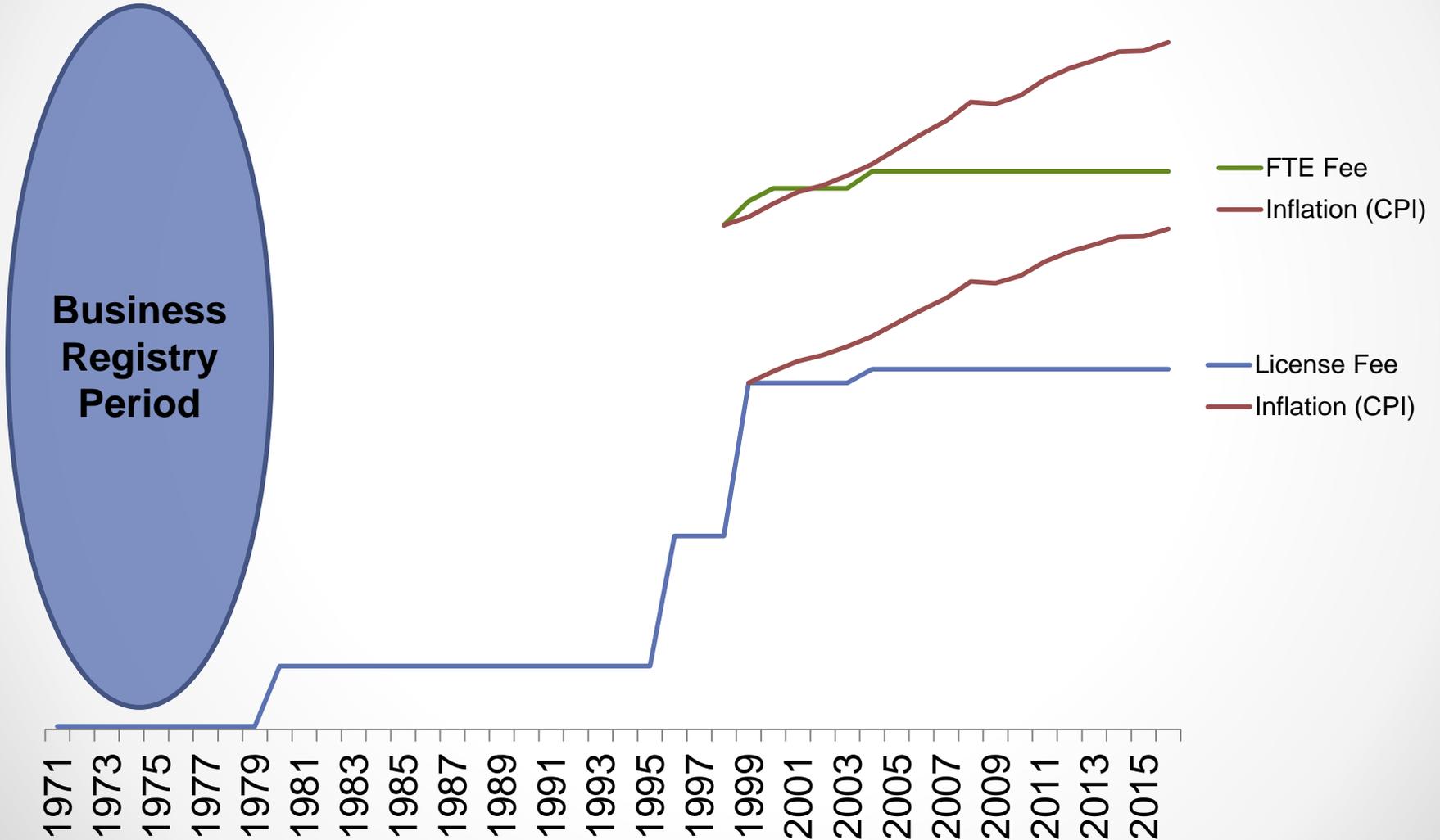


History

- In 1997, the City Council created a new FTE fee and a new fee on the rental of residential dwelling units (RDU)
- In 1999, the State Supreme Court invalidated the RDU fee as an unconstitutional property tax
- The FTE fee was initially set at 2 cents per hour for 1998
- **Fee Increases since 1998**
 - 1999: Base License fee increased to \$109.20 (+\$48.20) and the FTE fee increased to \$0.02125/hour (+\$0.00125)
 - 2000: FTE fee increased to \$0.02192/hour (+\$0.00067)
 - 2004: Base License fee increased to \$113.50 (+\$4.30) and the FTE fee increased to \$0.0228 (+\$0.00088)
- Mayor's 2015 Action Agenda: Identify ways "to encourage job creation and reduce the administrative burden on small businesses"

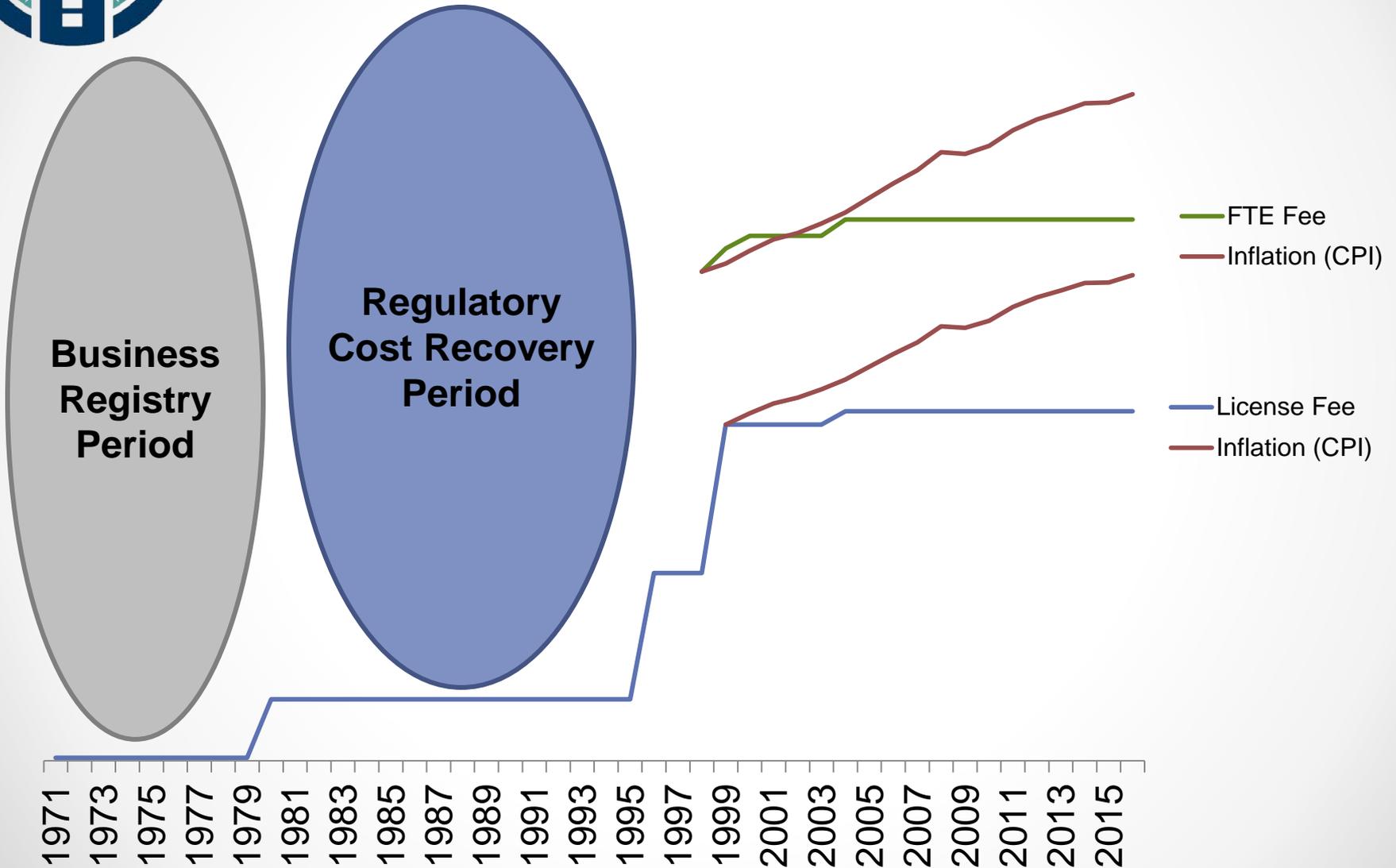


History



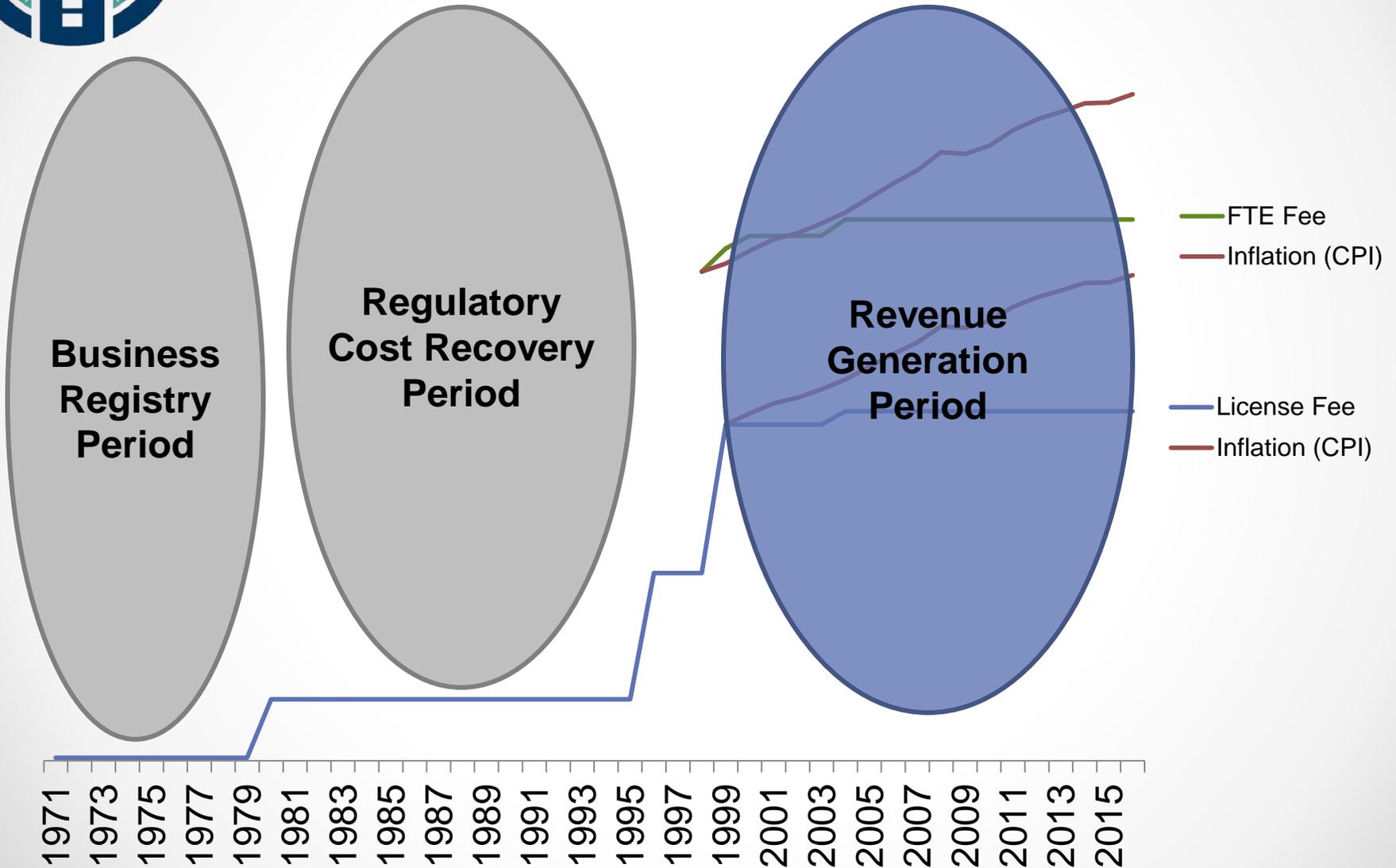


History



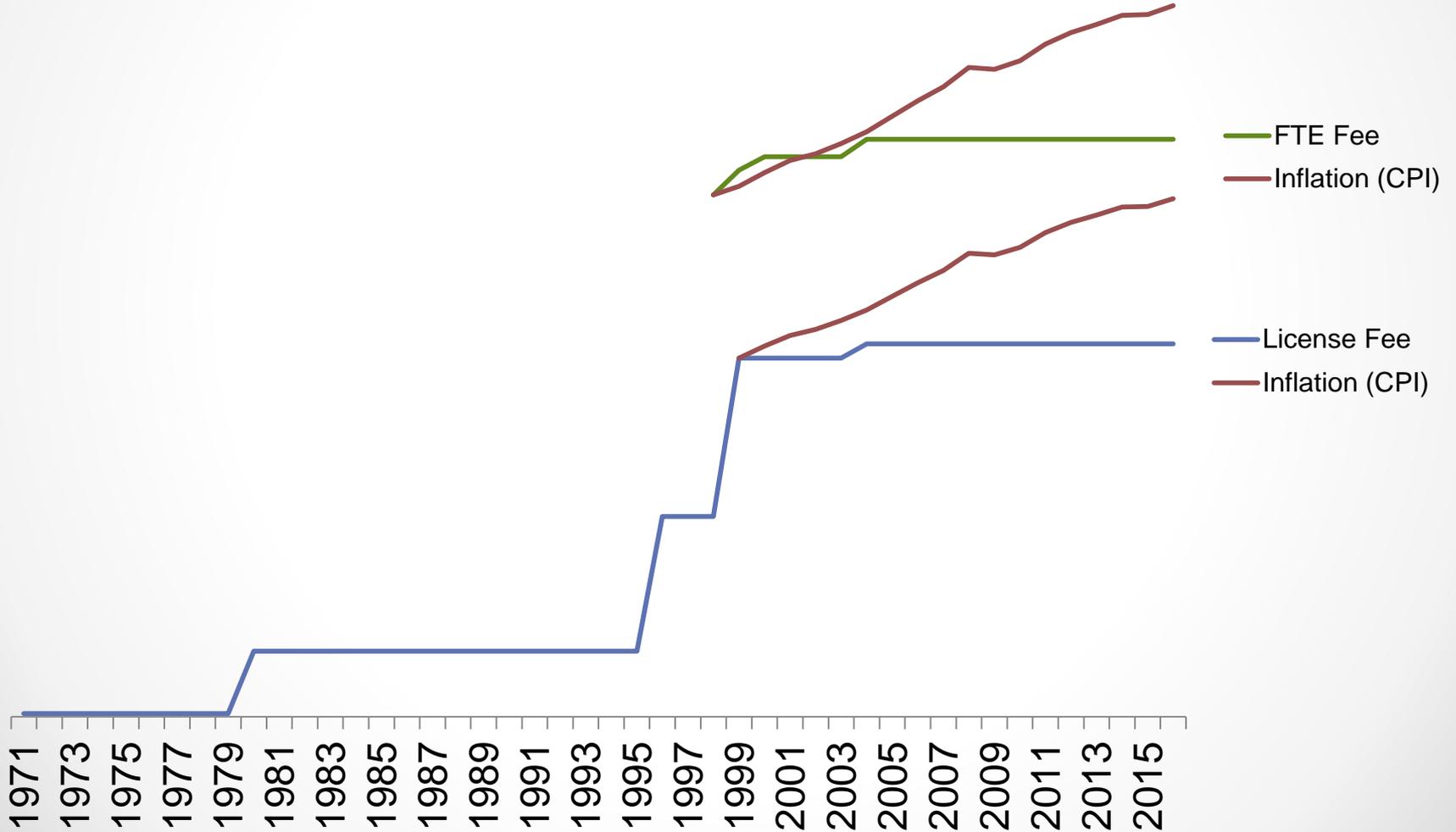


History





History





Issues: Action Agenda

- **Unique system that is not widely used and can be difficult to understand**
 - Overwhelming majority of Washington cities have flat business fees, larger cities have a local B&O tax in lieu of FTE charges
- **Marginal cost for small employers to create jobs**
 - Going from one employee to two increases license fees by 29%
 - 1,077 businesses have one FTE or less (76% of the total)
 - 1,202 businesses have three FTEs or fewer (85% of the total)
- **Administrative burden of calculating FTE fees for small businesses and non-resident businesses**
 - 94% of non-resident businesses have one FTE or fewer
- **Licensing process is not automated**



Solutions Considered

Options below were considered, but are not recommended.

- **A) Eliminate FTE fees and move to flat rate business license; increase flat rate to \$187.40**
 - Issues to Consider: Fairness to small vs. large, potential revenue impacts of fewer licensed businesses due to lack of compliance, revenue volatility
- **B) Eliminate fees for first 1-3 employees; increase base fee from \$117.90 (for 1 FTE scenario) to \$126.25 (for 3 FTEs scenario)**
 - Issues to Consider: Fairness to various employer types, where to draw the line
- **C) Eliminate FTE fees for non-residents; raise fee to \$119.40**
 - Issues to Consider: Fairness to various employer types, potential revenue from easier licensing system, less staff time spent answering questions



Staff Recommendation

- Staff proposal is a hybrid approach that attempts to provide short-term license fee restructuring while transitioning to the statewide online platform in 2017
- FTE fee modification
 - No fee for first three FTEs for resident and home occupation businesses
 - No FTE fee for non-resident businesses
- Raise base fee to \$125 to ensure net neutral revenue impact
- Direct staff to negotiate an agreement with Washington Department of Revenue to join the Master License Service as soon as possible
- Chamber of Commerce supports these changes



Other Suggestions

- **Wise Investments in Transportation Taskforce**
 - The Taskforce recommended three funding options for Council consideration
 - Option B included \$50,000 in additional revenue from business licenses
 - Three ways to raise this amount:
 - Increase the base fee from \$113.50 to \$147.75 (+\$34.25)
 - Increase the FTE fee from \$0.0228/hour to \$0.0270/hour (+\$0.0042/hour)
 - Combination of smaller base fee increase and smaller FTE increase
- **Public comment**
 - The Council has received public comment that the FTE fee should be increased to account for inflation and possibly to generate revenue for transportation or other City services
 - Using BLS inflation data, adjusting from 2004 to 2016
 - Base license fee: \$144.60; FTE fee: \$0.029/hour
 - Increase estimated to generate \$118,500 in new revenue in 2017
 - There have been public comments about extending fees to realtors, delivery trucks and potentially other businesses



Questions?

