



11930 Cyrus Way • Mukilteo, WA • 98275

City Council Economic Committee
Committee Meeting No. 2015-05
Tuesday, September 29, 2015
5:30-6:30 p.m.
Mukilteo City Hall

Meeting Report

Attendees:

Committee Members Present: Councilmembers Cook and Wheeler

Committee Members Absent: Councilmember Schmalz

City Staff: Management Services Director Phillips, Planning Manager Pickus,
Policy Analyst Lias

Public: Charlie Pancerzewski (resident), Alif Nurani (Staybridge Hotel)

Meeting Objective:

- 1. Approval of the meeting notes for the Aug. 25, 2015 meeting**
Postponed until the next meeting since neither Councilmembers Cook nor Wheeler attended that meeting.
- 2. Business License Reform**
Policy Analyst Lias led the committee through a discussion of Mayor Gregerson's business license reform 2015 Action Agenda item to encourage job creation and reduce the administrative burden on small businesses. He discussed the current system, which is not a commonly-used system, and presented potential alternatives along with their fiscal impacts. Pancerzewski was able to provide information on why the current system was adopted. Attached is a copy of the Lias' presentation.
- 3. Briefing on the University of Washington Midtown Mukilteo study**
Planning Manager Pickus briefed the committee on the work done on the Midtown Mukilteo Economic Development Study during summer quarter by University of Washington undergraduate landscape architecture students. He

also described the independent study work that will be done during fall quarter (traffic analysis, market analysis, fiscal analysis, view impact analysis) if the right students sign up and work that will be done in 2016 if the City of Mukilteo 2016 budget provides for continuing the contract with UW.

4. Discussion of follow up steps to business community survey

This discussion was postponed because the committee chair and Mukilteo Chamber of Commerce representative were not present.

Next Meeting:

5:30 PM, October 27, 2015
Mukilteo City Hall



**Business License Reform Concepts
Economic Development Committee
September 29, 2015**



Overview

- Mayor's 2015 Action Agenda included reviewing business license fees "to encourage job creation and reduce the administrative burden on small businesses"
- Executive and Finance staff reviewed current license structure and examined other jurisdictions' approaches
- Staff met with the Washington Department of Revenue to understand online business licensing options
- Tonight: presenting options to Economic Development Committee for initial review, refinement and to prepare additional stakeholder outreach



Current System

- Businesses operating in Mukilteo must pay a \$113.50 licensing fee plus \$0.0228 per employee-hour worked

Example Fee Structure	Employees	Hours Worked	Total License fee
Large employer	1,288	2,472,960	\$56,496.99
Small employer	1	2,088	\$160.92

- As of July 2015, there are 1,422 licensed businesses in Mukilteo
 - 578 are resident businesses
 - 571 are non-resident businesses
 - 273 are home occupation businesses
- There are a smaller number of temporary business licenses issued and small business licenses for those with less than \$5,000 in revenue



Concerns with Current System

- Unique system that is not very widespread and can be difficult to understand
 - Overwhelming majority of Washington cities have flat business fees, larger cities have an 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)
 - 1,201 businesses have three FTEs or fewer (84% of the total)
 - 1,268 businesses have five FTEs or fewer (89% of the total)
- Administrative burden of calculating FTE fees for small businesses and non-resident businesses
 - 94% of non-resident employers have one FTE or fewer
- Licensing process is not automated
 - Burden for customer and staff
 - Limits staff time available for auditing and other value-added functions



Potential Solutions

- **Challenge:** Unique system that is not very widespread and can be difficult to understand
- **Solution:** Eliminate FTE fees and move to flat rate business license
- **Cost Impact:** \$266,489.80 based on 2015 data
- **Revenue Neutral:** Raise fee from \$113.50 to \$187.40 (\$73.90 increase)
- **Issues to Consider:** Fairness to small vs. large, potential revenue impacts of fewer licensed businesses, revenue volatility



Potential Solutions

- **Challenge:** Marginal cost for small employers to create jobs
- **Solution:** Eliminate fees for first 1-3 employees
- **Cost Impact:**
 - Eliminate fees for one FTE: \$6,200
 - Eliminate fees for two FTEs: \$11,520
 - Eliminate fees for three FTEs: \$18,100
- **Revenue Neutral:** Raise base fee to cover lost FTE fees
 - One FTE option: \$113.50 to \$117.90 (\$4.40 increase)
 - Two FTEs option: \$113.50 to \$121.60 (\$8.10 increase)
 - Three FTEs option: \$113.50 to \$126.25 (\$12.75 increase)
- **Issues to Consider:** Fairness to various employer types, where to draw the line



Potential Solutions

- **Challenge:** Administrative burden of calculating FTE fees for non-resident businesses
- **Solution:** Eliminate FTE fees for non-residents
- **Cost Impact:** \$8,380
- **Revenue Neutral:** Raise fee from \$113.50 to \$119.40 (\$5.90 increase)
- **Issues to Consider:** Fairness to various employer types, potential revenue from easier licensing system, less staff time spent answering questions



Potential Solutions

- **Challenge:** Licensing process is not automated
- **Solution:** Move to online business licensing with Washington Department of Revenue
- **Cost Impact:** No cost impact to the City; \$10 administrative fee for some businesses on renewal of licenses
- **Revenue Neutral:** N/A
- **Issues to Consider:** Not available until 2017, additional staff time freed up for higher-value tasks



Staff Proposal

- Staff proposal is a hybrid approach that attempts to provide short-term license fee restructuring while transitioning to an 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
- Revenue impact: \$21,800 based on 2015 data
 - Increase base fee from \$113.50 to \$125, generates \$16,350
 - Assume new FTE growth in 2016 will generate sufficient additional revenue to cover the remaining revenue impact
- Direct staff to negotiate an agreement with Washington Department of Revenue to join the Master License Service as soon as possible



Next Steps

- Review and comment by Economic Development Committee
- Stakeholder meetings with local businesses
- Online survey of business license holders
- Final proposal included in 2016 budget and fee resolution



Questions?

