

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

<p>AGENDA TITLE: Business License/Registration Program DEPARTMENT: Finance PRESENTED BY: Debbie Tarry, Finance Director</p>
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PROBLEM/ISSUE STATEMENT:

The Council's 2005-2006 work plan includes the implementation of an active economic improvement plan. One of the milestones included in this goal is the implementation of a City business license/registration program. This staff report provides some options available to the Council in implementing such a program.

Although the City Council has had some preliminary discussions regarding a business license program and has indicated an interest in implementing such a program, this will be the first time in which the Council has a specific discussion on the policy direction that should be established for the business license program.

Specifically staff would like to have Council determine their policy direction on the following items:

- Regulatory or Revenue-Generating Business License Program
 - If Council desires a revenue-generating program, should revenues in excess of the cost of the business license program be allocated for a specific purpose such as economic development.
- Specific Exemptions or Thresholds
 - Are there exemptions other than non-profit agencies that the City Council would like considered?
 - Does the Council desire a minimum sales threshold before businesses are required to obtain a license or pay a license fee?
- One-time vs. On-going registration
 - Staff would recommend that the City require businesses to register annually. If Council has a different policy recommendation then it would be helpful to make staff aware of this at this time.

FINANCIAL IMPACT:

The 2006 adopted budget estimates annual business license program revenue at \$95,000.


RECOMMENDATION

Staff recommends that the Council provide direction on the policy questions presented in this staff report. Based on the Council direction, staff will proceed with the following:

- Develop an ordinance to implement the business license program

- Determine whether a partnership with the State Master License Services (MLS) can be used to implement the City's business license program or whether the City should independently implement a business license program
- Develop a business outreach program to provide information regarding the City's business license program to businesses.

If Council consensus on policy issues is reached on February 21, staff anticipates that they could return in April with a recommended ordinance to implement the business license program. It is staff's intent to implement the business license program during 2006. The timing of the program implementation may vary depending whether the City can partner with MLS or if we must establish an independent program.

Approved By: City Manager  City Attorney ____

INTRODUCTION

The Council's 2005-2006 work plan includes the implementation of an active economic improvement plan. One of the milestones included in this goal is the implementation of a City business license/registration program. This staff report provides some options available to the Council in implementing such a program.

BACKGROUND

The Revised Code of Washington (RCW) Chapter 35A.82.020 authorizes code cities to exercise the authority authorized by general law for any class of city to license and revoke the same for cause, to regulate, make inspections and to impose excises for regulation or revenue in regard to all places and kinds of business, production, commerce, entertainment, exhibition, and upon all occupations, trades and professions and other lawful activity.

Based on this authorization the City of Shoreline is authorized to assess business taxes and licenses in three forms:

1. Excise (percentage) taxes levied on different classes of business to raise revenue. These are commonly called general business and occupation taxes.
2. Licenses for the purposes of regulation only.
3. Licenses to regulate and raise revenue.

As the economic improvement plan includes consideration of a City business license/registration program, this staff report will focus on business licenses.

Regulatory License Fees

Regulatory license fees fall into two categories: 1) professional and occupational licenses and 2) business license fees. The City already assesses occupational license fees for some specialty businesses such as massage businesses, pawnbrokers, secondhand dealers, and solicitors. Other businesses are not currently required to obtain a license from the City of Shoreline.

Purposes for implementing a regulatory business license for all businesses include:

- Provide the City with a record of the owners and other contact information;
- Provide a master list of businesses and types of businesses that conduct business within Shoreline;
- Help ensure compliance with City ordinances (for example, zoning, fire and life safety, etc.); and,
- Provide a listing of businesses that can be used to audit against sales tax receipts to ensure that the City is receiving sales tax from all applicable businesses.

Regulatory business license fees are set at a flat rate per license in an amount designed to recover the costs of registering the businesses and the issuing the licenses, maintaining the files, and inspecting businesses to make certain that all have a license.

The fees charged should be fair and bear a reasonable relation to costs, including both direct and indirect costs.

Revenue-Generating Regulatory Licenses

Revenue generating business licenses are usually issued for all the same reasons as regulatory businesses, but the fee structure is established to generate revenue for City operations beyond the cost of implementing the business license program. Rather than charge a single flat fee to license all businesses, cities that license to generate revenue use a variety of criteria to separate businesses into different classes and then charge unique flat fees on each class. Some of the most common class differences include classifying businesses based on the number people they employ, fees based solely on the type of business, the square footage of the establishment, or a combination of these. The law allows for a good deal of creativity in designing these license fees. However, classes of the businesses must be clearly defined, with each firm within each class being charged the same fee.

Other Cities

According to the Association of Washington Cities 2004 Tax and User Fee Survey, 186 cities responded that they charged either a regulatory or revenue generating business license fee. Attachment A provides a list of 19 cities that are either in close proximity to Shoreline and/or are cities used as comparables to Shoreline. All of these cities require a business license. Of those 19, 11 of them charge a flat fee business license which would indicate that they are charging a business license for regulation purposes. Of those 11 cities charging a regulatory business license fee, five of the cities also charge a business and occupation tax. This would include Seattle, Bellevue, Everett, Lake Forest Park and Olympia. Bellevue and Everett only require that businesses obtain a license one-time and have no requirement for an annual renewal, although businesses must pay the business and occupation tax on an on-going basis. Of the seven cities charging a revenue generating business license fee, only one city, Burien, charges a business and occupation tax.

Although most cities put any revenue generated from business license fees in their general fund to cover the cost of implementing a business license program and other general government costs, the cities of Redmond and Renton, which have revenue generating business license programs, have chosen to allocate any proceeds from business license fees in excess of the cost of implementing their business license program towards economic development or capital improvements. The City of Redmond bases their business license fee on number of employees and charges a rate of \$83.25 per employee. This fee is composed of \$28.25 per employee as a base fee, and then an additional \$55 per employee as a surcharge. The surcharge is specifically allocated to funding for transportation infrastructure improvements. This generates nearly \$2 million of revenue annually for the City's transportation capital funding related to economic development.

State of Washington Master License Services (MLS)

The MLS is a program within the state Department of Licensing that provides a centralized "one-stop" combined-licensing service to state and local agencies and the business community. The combined-licensing allows MLS to provide a single, centralized process on behalf of many different licensing agencies. Businesses indicate

the licenses they need on a Master Application form that addresses the questions common to most applications, along with some specific information required of individual agencies. Applicants complete the single application and pay all required fees for the various agencies with a single check. A separate application must be filed for each physical business location, a common requirement of city business license programs. The application is processed at MLS, where the appropriate fees and information are then distributed through an automated process to each licensing agency affected by that application.

MLS then issues a single "Registrations and Licenses" document, commonly referred to as the 'Master License.' The license document is specific to a particular business location. Each of the licenses that have been granted to the business owner at that physical location appears as a line item "endorsement" on the Master License. Licensing agencies retain full regulatory control over their own license and continue to approve or deny the applicant as appropriate; the individual license endorsement is not printed on the 'Master License' until all of the regulating office's requirements are met. The 'Master License' includes a single, common expiration date for all licenses with a renewal requirement held by the licensee. This allows MLS to issue a single, annual renewal notice.

MLS allows cities to partner with them to issue their business licenses through this single common method and in fact they have developed a grants program to assist in meeting the cost of the partnership process. The grants program is to be available in 2006. To date five cities have partnered with MLS to issue their city business licenses: Bellevue, Richland, Sammamish, Tumwater, and Spokane Valley. City staff has already visited the City of Sammamish and Bellevue to discuss and review the process they use to issue licenses in conjunction with MLS.

In discussing with MLS staff their process and recommendations if the City of Shoreline desired to partner with them to issue City business licenses, they advise that in general the more simple the City's licensing requirements the more likely that the City's process will fit with MLS. Although MLS would try to accommodate more complex processes or requirements, the project may need to be postponed to a future date, or until after additional MLS enhancements have been developed. Complex requirements may include using a more complex fee schedule, such as per employee or square footage; a variety of exemptions; or a difficult classification of businesses.

Basic requirements that MLS would encourage to make the partnership between them and the City work better would include:

- Capability for establishing electronic data communication with MLS.
- Local government application questions that are easy for the applicants to complete, using a standard, shared addendum form along with the Master Application.
- Flat-rate license fee
- Little, or no information required to be collected at renewal time
- Ability to use the 9-digit Unified Business Identifier (UBI) number, plus a the 7-digit MLS extension to identify and track business records.
- Establishing a UBI Field Office at the City's own licensing office.

- Being able to accommodate expiration dates staggered throughout the year. (Many of cities have their business license cover a calendar year, and as such all of their business licenses expire annually on December 31. MLS works with a rolling twelve month license so expiration dates coincide with the anniversary date of when a business first obtained their license.)
- Focusing only on business licenses. MLS would normally expect that the City continue our internal process for the issuance of occupational type licenses (Adult Entertainment, Home Occupation permits, Pawnbroker Licenses, etc.)

Since the City is just in the formation stages of its business license program, we would be able to accommodate many of these requirements, if they were in line with the Council's policy direction in establishing a business license program.

As far as establishing a UBI Field Office, staff believes that we could accommodate this requirement. Basically, 'Master Applications' filed on paper must either be submitted at a public counter or mailed directly to MLS. The statewide UBI program allows business persons to submit a Master Application and receive a UBI number issuance at the counters of any of the regional service centers (field offices) of the State departments of Revenue, Labor & Industries, or Employment Security, and the main counters in Olympia of the Corporations Division of Secretary of State, and the Master License Service (Department of Licensing) – these five state agencies represent the UBI program managing board as well as being MLS partners. In addition, each participating city also accepts Master Application forms at its public counter.

Each of the field offices is responsible for maintaining a supply of the basic application forms, receipting the application filings submitted there, issuing the applicant a UBI number, and forwarding the application filings to MLS for further processing. Each field office is capable of connecting to the Department of Revenue computer system to issue UBI numbers, as well as the to the MLS computer system for account research. MLS does allow for on-line registrations, and therefore applicants are encouraged to pursue on-line registration.

MLS is supported through the handling fees it charges applicants and licensees directly for the combined licensing services provided. These handling fees are currently \$15 to a file a Master Application, regardless how many licenses are requested on the application; and \$9 to file a renewal, again regardless of the number of licenses being renewed. For Shoreline businesses that are already obtaining a license through the Department of Licensing, the business is already paying this handling fee when they file their master license application. This handling fee is in addition to the City's business license fee.

Based on staff's discussion with Bellevue and Sammamish, MLS does perform some of the business license enforcement actions, such as following up with businesses who have failed to obtain or renew required licenses.

Independent City Program

Many cities offer a business license program independent of the MLS and the City of Shoreline could decide to do this also. It is likely we would use the City's Hansen

software system to issue and track license transactions and information. Currently we would estimate that it would take at least a .5 FTE to be dedicated to the business license program, dependent on the number of enforcement actions and amount of time needed to follow-up on business license related inquiries after the program is implemented. The City would issue its own licenses and be responsible to process all payment transactions.

There are advantages and disadvantages with either operating a business license program through MLS or independently through the City. Basically operating a business license program directly allows the City to make the program as simple or complex as desired regarding fee structure, exemptions, renewals, enforcement, and process. Businesses would be required to obtain State licenses separately. Partnering with MLS may require that the City develop a more simplistic system in order to work easily with the State's system, but would provide for a "one-stop" licensing system for both the City's business license and state licenses for Shoreline businesses and less personnel impact to the City as the MLS is responsible for issuing licenses and collecting fees.

Policy Issues

Decisions on various policy issues will determine whether the City should further explore the ability to work with MLS or should develop a business license program independently. These policy decisions include the following:

1. *Regulatory or Revenue Generating Business License Program:* The City's fee structure will depend on the focus of the business license program. If the Council desires to have a business license program that focuses on regulation (identifying businesses that operate in the City, conformance with zoning regulations, etc.) then the fee structure will be a flat fee for all businesses with the revenue generated from the program approximating the cost of the business license program (both direct and indirect costs).

If the Council desires not only to use the business license program for regulatory purposes, but also to generate revenue for providing services or dedicating the revenue for a specific purpose, then the City can implement a revenue generating business license program. In this case, the City would need to determine classifications for businesses and apply a fee structure that meets those classifications. The most common classifications are number of employees employed by the business, square footage of business, or types of businesses.

Estimating that there will be a minimum of 1,400 business licenses issued by the City, the revenue generated by a regulatory business license at \$25 per license would be \$40,000, \$50 per license would be \$70,000, or at \$75 would be \$105,000. It is likely that there may be more than 1,400 businesses that would register in the City once the program is implemented. This estimate is based on the number of businesses that currently pay more than \$100 in annual sales tax to the City or does \$12,000 in annual sales. This does not mean that the City must exempt businesses that have \$12,000 in annual gross receipts or less, but this is the threshold that is used by the Department of Revenue for requiring

businesses to register in the State. Revenue generated by revenue generating business license program could be much greater depending on the basis used for assessing the business license fee. The fee for an individual business will vary based on either the number of employees employed by the business or the size of facility used to operate the business. If number of employees were used to determine the business license program under a revenue generating business license program, those businesses with a larger number of employees would most likely pay a much higher license fee than those with only a few employees. The 2006 adopted budget estimates that the City will collect \$95,000 in business license revenue annually.

Whether the City implements a regulatory or revenue generating business license program, may determine the City's ability to develop a partnership with the State of Washington MLS.

2. *Specific Exemptions or Inclusions*

Most cities provide that all businesses doing business within the City's boundaries be required to obtain a business license unless specifically exempted. Most cities exempt or provide for a minimum license fee for non-profit businesses that are registered with the office of the Secretary of State or have an IRS 501(c) certificate. Some exempt businesses that are below a specific sales threshold or exempt specific types of businesses. This information is included for comparable cities on Attachment A.

3. *Renewal or One-Time Business License Fee*

Most other cities require that businesses register annually and that a business license fee be charged annually. As you will see from Attachment A, two of the comparable cities charge a one-time fee, Everett and Bellevue. These cities also charge an on-going business and occupation tax on the business's gross receipts.

STAKEHOLDERS

Businesses

Once staff has received feedback from the City Council on the three policy areas, staff will engage in an outreach effort to the business community on the proposed business license program. The Economic Development Task Force has had several discussions regarding a business license program and in fact they have recommended that the City implement such a program. Their recommendation has not focused on a specific fee structure, but they have indicated that revenue generated should be used to pay for any costs of the business license program and then allocated towards economic development programs designed to benefit the business community.

After the Council determines if they desire to implement a regulatory or revenue generating program, staff will develop a recommended fee structure. A flat fee structure will result in all businesses paying the same fee. Small businesses may feel that they should not have to pay the same fee as large businesses. At the same time if a revenue-generating business license program is implemented and a graduated fee is developed, businesses with a large number of employees or larger facilities may pay a

much higher fee than businesses with few employees or small facilities. In either case this will be a new business expense for all businesses.

It is staff's desire to develop a program that is simple for businesses to comply with while meeting the policy direction of Council. Staff will work with businesses to identify how we can have the least impact to them while meeting the needs of the City.

Other Agencies

The Shoreline Fire District is very interested in the City implementing a business license program. We have included a representative from the District in staff discussions about a business license program. We will continue to work with them to identify how a program can provide mutual benefits to both of our governments. Even though this is the case, there may be times in which we may not be able to meet all the needs of the District.

SUMMARY

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RECOMMENDATION

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ATTACHMENTS

Attachment A – Comparable Cities Matrix

City	Regulation Only or Revenue Generating	Fee	Fee Base	One-Time or Annual	Threshold Amount/ Exemptions	B&O Tax
Auburn	Regulation	\$25	Flat Amount	Annual	None	N/A
Bellevue	Regulation	\$26	Flat Amount	One-Time	Farmers	0.1496%
Bothell	Revenue Generating	\$19-\$516+	Combination - # of employees, square feet, business type	Annual	\$1,000/month	N/A
Burien	Revenue Generating	\$30-\$150	# of employees	Annual	Non-Profit Farmers Govt. Agencies Minors	0.5%
Edmonds	Regulation	\$65	Flat Amount	Annual (\$25 Renewal)	Non-Profit Leasing a single rental unit or one private residence	N/A
Everett	Regulation	\$10	Flat Amount	One-Time	\$12,000/year	0.1%
Federal Way	Regulation	\$50	Flat Amount	Annual	Non-Profit	N/A
Kent	Regulation	\$75	Flat Amount	Annual	Non-Profit	N/A
Kirkland	Revenue Generating	\$100 -\$2,600	Combination - # of employees and gross receipts	Annual	\$2,000<Annual Gross Receipts Non Profit, Govt. Agencies, Religious Organizations (\$25 Fee)	N/A
Lake Forest Park	Regulation	\$20	Flat Amount	Annual	Non-Profit, Farmers, Taxi, limousine, airporter, Sellers operating outside the City an the only event occurring within the city is receipt of such services	0.2%
Lakewood	Regulation	\$35	Flat Amount	Annual	Farmers, Minors doing babysitting and delivery	N/A

ATTACHMENT A

City	Regulation Only or Revenue Generating	Fee	Fee Base	One-Time or Annual	Threshold Amount/ Exemptions	B&O Tax
					of newspapers, Non-profit	
Lynnwood	Revenue Generating	\$88+\$14 (Resident Business) \$142 +14 (Non-Resident) \$26+ \$14 (Home Occupation) \$105 One-Time First Time License	Flat Amount + per employee	Annual	Non-Profit	N/A
Mountlake Terrace	Revenue Generating	\$93-\$654	# of employees	Annual	Non-Profit	N/A
Olympia	Regulatory	\$80 First time \$30 Renewal	Flat Amount	Annual	<\$900 per quarter in gross receipts	Services – 0.2% Others – 0.1%
Redmond	Revenue Generating	\$83.25 per employee (\$28.25 per employee base + \$55 per employee surcharge for transportation infrastructure)	# of employees	Annual	\$15 for businesses < \$1,500 per year Govt. Entities; Farmers; Non-Profit; Residential Rental or Leasing of 4< Units; Under 18 Years of Age; Daycares < 13 Children	N/A
Renton	Revenue Generating	\$55 per employee	# of employees	Annual	Certain translators and attorneys that are providing services to clients but have a license in another City and do not have a physical location within Renton	N/A
Sea-Tac	Regulation	\$35	Flat Amount	Annual	<=4 sales transactions per year	N/A

City	Regulation Only or Revenue Generating	Fee	Fee Base	One-Time or Annual	Threshold Amount/ Exemptions	B&O Tax
Seattle	Regulation	\$80	Flat Amount	Annual	\$50,000/year license only	Services – 0.415% Others – 0.215%
University Place	Revenue Generating	\$50 \$25 – Home Occupation	Type of business + Square Footage	Annual	<\$12,000 per year in gross receipts; Minors; Govt. Entities; Non-Profit	N/A

Business License/Registration Program

February 21, 2006

Debbie Tarry, Finance Director

Why License?

- *Provide a master list of businesses and types of businesses that conduct business within Shoreline*
- *Provide the City with a record of the owners and other contact information for businesses*
- *Listing of businesses to reconcile against sales tax records*
- *Help ensure compliance (i.e., zoning, fire and life safety, etc.)*
- *For some cities to generate revenue*

What Businesses Does the City Already Require to Obtain Licenses for Regulatory Purposes?

- *Massage Businesses*
- *Public Dance Events*
- *Pawnbroker*
- *Secondhand Dealers*
- *Solicitors*
- *Adult Entertainment*

State Law Allows

- *Business licenses for the purpose of regulation only*
 - Business license fees are set at a standard flat rate per license for all business classes
- *Business licenses to regulate and to raise revenue*
 - Requires identifying a different classes for businesses and then charging a common rate for businesses within each class
 - Generate revenue beyond the cost of the business license program
 - Revenue can be for general municipal operations or allocated for specific purpose by Council policy

Common Business Classes for Revenue Generating Business Licenses

- ***Number of Employees***
 - Per Employee Charge
 - Grouped by Number of Employees (i.e., 1-50, 51-100, etc.)
- ***Square Footage***
- ***Type of Business***
- ***Combination of These***

Differences Between Regulatory & Revenue Generating

- ***Regulatory***

- Obtain information to develop City business data base
- Easier to implement with flat rate structure, standard application for all businesses, etc.
- Not as many reporting requirements for businesses
- May not generate revenue for additional municipal operations
- Can develop revenue generating components at a later time (license or business & occupation tax)

- ***Revenue Generating***

- Obtain information to develop City business data base
- Can be more difficult to implement with varied rate structure, enforcement with business classes
- More reporting requirements for businesses
- Generate revenue for general operations or for dedicated municipal purpose

What Do Other Cities Do?

- *Over 180 cities in Washington have a business license program*
- *19 cities either comparable or in close proximity to Shoreline*
 - Auburn, Bellevue, Bothell, Burien, Edmonds, Everett, Federal Way, Kent, Kirkland, Lake Forest Park, Lakewood, Lynnwood, Mountlake Terrace, Olympia, Redmond, Renton, Sea-Tac, Seattle, University Place

Other Cities

- *11 of the Cities listed previously have a regulatory business license program*
 - Five of these cities also have a business & occupation tax (Seattle, Bellevue, Everett, Lake Forest Park, Olympia)
 - Business license fee ranges from \$10 - \$80 per year
 - *2 Cities have one time fees (Everett -\$10 & Bellevue - \$26)*
 - *7 Cities have a fee of \$50 or more per year*
- *8 of the Cities have revenue generating business license programs*
 - Highest Fee is \$83.25 per employee (Redmond)
 - *\$28.25 is base fee + \$55 surcharge for transportation infrastructure*
 - *50% of businesses in Shoreline have only 1 employee*
 - *Of remaining businesses median is 5 employees, average is 14*
 - *Largest employer 349*
 - *Estimate 10,800 employees City-wide*

Economic Development Task Force

- ***Recommends Implementation of a Business License Program***

- Revenue generated in excess of cost of business license program be allocated for economic development
- Get good information
- Charge a reasonable fee
- Not opposed to a sliding scale (i.e., per employee or businesses grouped by number of employees)
- Have low administrative costs for business license program implementation and operation

Next Steps

- *Council direction on policy issues*
- *Outreach program to business community*
- *Determine if Shoreline can partner with the State of Washington Master License Services (MLS)*
 - Business able to obtain State licenses and any partnering City licenses through the State

Policy Issues for Council

- ***Regulatory or Revenue Generating Business License Program?***
 - Impacts recommended rate structure
 - Impacts ability to partner with MLS
- ***Specific Exemptions or Inclusions?***
 - Non-Profits, Farmers, Gross Receipts Threshold
- ***Annual or One-Time***
 - Recommend Annual