



TO: Elizabeth Pauli, City Manager
FROM: Danielle Larson, Tax & License Manager, Finance
 Andy Cherullo, Finance
COPY: City Council and City Clerk
SUBJECT: Ordinance – Amendments to Title 6 Administrative Provisions and Annual Business License – October 30, 2018
DATE: October 9, 2018

SUMMARY:

Staff is proposing to amend administrative procedures in the Tacoma Municipal Code, chapters 6A.10, 6B.10 and 6B.20, related to penalty waivers and license fees, and add a new minimum license threshold in chapter 6B.20 Annual Business License as required by Engrossed House Bill 2005. Staff is seeking an approval of the proposed amendments.

STRATEGIC POLICY PRIORITY:

- Encourage and promote an efficient and effective government, which is fiscally sustainable and guided by engaged residents.

BACKGROUND:

1. A comprehensive review of Title 6 has not been conducted since 2005 when the City adopted the Model Tax Ordinance and Title 6 was separating tax and license chapters into two subchapters.
2. Since 2006, the City has offered a pro-rated license fee for businesses that open between July 1 and December 31st as half of the annual license fee. In 2017, the City added a third tier to the annual business license fee structure based on the annual gross income of the business. The current structure is:

Gross Income Threshold	Fee	Pro-Rated Fee
Under \$12,000	\$25	\$25
\$12,000 - \$250,000	\$110	\$55
Over \$250,000	\$250	\$125

3. The Washington State Legislature passed Engrossed House Bill 2005 in 2017 that requires all cities to create a Model Licensing Ordinance prior to January 1, 2019 that establishes a minimum threshold before a business is license is required. The Association of Washington Cities and city licensing officials established a Model Licensing Ordinance that creates a license fee exemption for businesses based outside of the City and who have less than \$2,000 in gross income in the City.

ISSUE:

1. Comprehensive Review

TMC 6A.10.120 and 6B.10.095 – Cancellation of penalties.

- Adding in an option for a penalty waiver when previous filing history is good

TMC 6B.10.160 – Refund of license fee.

- Clarifying what type of situations refunds can be issued for license fees paid

TMC 6B.20 – Annual Business License

- Clarifying:
 - rental property owners license requirements



- license fee determined by *anticipated* gross income
- term and due date of the license
- when the statute of limitations starts

2. Pro-rated License Fees

TMC 6B.20.020 – License fees.

Pro-rated business license fees are currently offered to new businesses that open a new business between July 1 and December 31st as half of the annual license fee. Now that the City has a three tiered license fee structure, a business is more likely to pay a first year license fee based on their annual income rather than a pro-rated fee, which is a lower license fee for most new businesses. Prior to the three tiered license fees, up to 40 % of new businesses opening after June 30 paid a pro-rated fee vs. a lower tier license fee. Since 2017, less than 20% of new businesses opening after June 30 paid a pro-rated fee vs. a lower tier license fee.

The additional pro-rated fees and three tiered license fees can be confusing for new businesses, having to choose which fee fits their circumstances the best when submitting their application. Eliminating the pro-rated fee reduces the amount of options a new business will need to choose from when applying for a license with the City. The change will also reduce errors by businesses when choosing the incorrect fee to pay, reduce corrections needed by staff and provide a simpler administrative process.

Eliminating the pro-rated license fee will effect approximately 400 - 500 new business applicants per year.

3. Minimum Licensing Threshold

TMC 6B.20.030 – Exemptions.

Establishing a minimum threshold for businesses that are based outside of Tacoma and generate less than \$2,000 of gross income in Tacoma before a business license fee is required to be paid. The minimum licensing threshold is required by state law to be implemented by January 1, 2019.

ALTERNATIVES:

There is not an alternative to establishing at least a minimum licensing threshold because it is required by state law, however, the City could expand the threshold to businesses located inside the city and/or set a higher gross income threshold. Staff recommends that the threshold is set at the minimum required at this time to better understand the potential impacts.

RECOMMENDATION:

Staff recommends the proposed changes be implemented to provide an additional option for staff to waive late filing penalties, clarify when a license fee can be refunded and that the business license fee is determined by anticipated gross income.

FISCAL IMPACT:

Eliminating the pro-rated license fee will increase business license revenues by an estimated \$35,000 - \$45,000 annually.

Adding the business license threshold will decrease business license revenues by an estimated \$25,000 annually.



REVENUES:

FUNDING SOURCE	COST OBJECT (CC/WBS/ORDER)	COST ELEMENT	TOTAL AMOUNT
Annual Business License Fees	106500	4321100	\$15,000
TOTAL			\$15,000

FISCAL IMPACT TO CURRENT BIENNIAL BUDGET: \$15,000

ARE THE EXPENDITURES AND REVENUES PLANNED AND BUDGETED? No.