

TUMWATER BUDGET & FINANCE COMMITTEE
MINUTES OF MEETING
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CONVENE: 4:05 p.m.

PRESENT: Mayor Pete Kmet and Councilmembers Joan Cathey, Neil McClanahan, and Tom Oliva.

Assistant City Administrator Heidi Behrends Cerniwey, Finance Director Ursula Euler, City Attorney Karen Kirkpatrick, Finance Services Manager Shelly Carter, Account/Utilities Supervisor Monica Harding, and Recording Secretary Valerie Gow.

ORDINANCE NO. O2018-020, BUSINESS TAXES, LICENSES AND REGULATION CODE CHANGES: Manager Carter described recent changes in legislation for business taxes and licenses. The changes were prompted to assist businesses in obtaining business licenses by streamlining the process. Approximately 230 municipalities within the state have implemented business licensing and assessment of business and occupation (B&O) taxes. To assist businesses, the state previously established Business Licensing Service (BLS), a service for administering business licenses enabling a business to secure business licenses from multiple jurisdictions. New legislation requires cities currently not participating to join the Department of Revenue's BLS or *File Local* by a specific date. The City currently subscribes to BLS, which allows businesses to obtain multiple business licenses.

Mayor Kmet asked whether *File Local* is a group of the larger jurisdictions, such as Seattle, Tacoma, and Bellevue. Manager Carter said *File Local* includes five cities; however, it is uncertain as to the number of additional jurisdictions planning to join *File Local* versus BLS. More cities subscribe to BLS.

In an effort to assist businesses, a Model License was developed defining "engage in business." The law impacts the City because it requires additional language to include detailed examples of what "engage in business" means. The legislation also established a \$2,000 minimum threshold for license requirements for businesses not physically located in the City. Cities can choose one of two options for license requirements for those businesses with revenue of \$2,000. The first option is not requiring the business to obtain a business license. The second option would require a business license but at no cost to the business. Staff recommends adopting the second option for tracking purposes for those entities engaging in business within the City but meeting the minimum threshold. Additionally, should the business exceed the threshold, the business would be automatically registered and receive the appropriate tax forms for filing.

Other proposed changes to the ordinance include adding BLS as the City's process for applying for a business license, as well as other updates and additional information on penalties. The two major changes are the addition of the \$2,000 threshold and defining "engage in business."

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Mayor Kmet asked whether the proposed language is from the model license. Manager Carter affirmed the language is same as the model definition. Additionally, the changes are required for implementation by all cities by January 1, 2019. However, those jurisdictions currently partnering with BLS for licensing must provide BLS with a 75-day notice of any changes. Subsequently, the proposed ordinance must be adopted by October 17, 2018.

Staff is requesting authorization to place the ordinance on the consent calendar for the Council's September 18, 2018 meeting.

Councilmember Cathey inquired about the length of the City's partnership with BLS. Manager Carter said the City has partnered with BLS since 2003.

Councilmember Cathey commented that the under collection of B&O taxes has been an ongoing concern. Recently, some reporting indicates the City is improving B&O tax collection. She asked about changes prompting improvements in the collection rate. Manager Carter advised that the collection of B&O taxes is not part of the BLS process. B&O collection is processed through the City through notices mailed to each registered business in the City. Improvements have occurred because of reviews of the process, more notices mailed, and following up on information received from the state on new businesses. For example, in 2017 through BLS, 931 business applied for a new business license and 2,713 businesses renewed. Today, the City has approximately 3,800 active businesses in the City that have either applied or renewed through BLS.

Councilmember McClanahan asked about the percentage retained by the City. Manager Carter said some of the housekeeping changes outline the fees. The City of Tumwater assesses a \$50 fee for a new license and \$19 is assessed by the state for the application fee.

Mayor Kmet inquired about the location of language in the ordinance pertaining to the \$2,000 threshold. Manager Carter cited Section 7. E (page 8) as the applicable provision. Mayor Kmet asked about provisions applicable to businesses exceeding the threshold. Manager Carter cited Chapter 5.04.020 *Business license required – Posting*, as the provision that requires businesses to obtain a license. Section 7. E speaks to exceptions for those businesses meeting the \$2,000 threshold. Mayor Kmet commented that he might have some minor text changes for Section 7. E.

City Attorney Kirkpatrick noted the provision on fees is included in Section 4 under 5.04.040 *Application and renewal*.

Discussion ensued on the provision for the \$2,000 threshold. City

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Attorney Kirkpatrick advised that state law prohibits the City from charging a business license fee for businesses generating \$2000 or less annually. New legislation affords two options to the City of either requiring the license without the fee or not requiring a business license.

MOTION: Councilmember McClanahan moved, seconded by Councilmember Oliva, to recommend the City Council approve Ordinance No. O2018-020, Business Taxes, Licenses and Regulation Changes. Motion carried unanimously.

ADJOURNMENT: With there being no further business, Mayor Kmet adjourned the meeting at 4:25 p.m.

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